What's behind Reuther's demands

(Page 100)

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BUSINESS WEEK

A McGRAW-HILL PUBLICATION FIFTY CENTS FEB. 1, 1958

Company doctor Perelle's prescription for Arma: Move research closer to the president's office. (Page 84)

FIGURES OF THE WEEK

IN BUSINESS THIS WEEK February 1, 1958

GENERAL BUSINESS

THE DEPARTMENTS

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NUMBER 1483

FIGURES OF THE WEEK

BUSINESS WEEK INDEX (chart)	1946 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
BUSINESS WEEK INDEX (chart)	**91.6**	**152.8**	**135.0**	**†130.9**	***130.9**
PRODUCTION					
Steel ingot (thous. of tons)	1,281	2,498	1,501	†1,496	**1,479**
Automobiles and trucks	62,880	178,550	96,255	†136,505	**134,133**
Engineering const. awards (Eng. News-Rec. 4-wk daily av. in thous.)	$17,083	$55,832	$44,574	$39,504	**$43,458**
Electric power (millions of kilowatt-hours)	4,238	12,410	11,218	12,400	**12,399**
Crude oil and condensate (daily av., thous. of bbls.)	4,751	7,396	6,940	6,925	**6,923**
Bituminous coal (daily av., thous. of tons)	1,745	1,654	1,563	†1,465	**1,407**
Paperboard (tons)	167,269	282,631	213,154	281,999	**266,581**
TRADE					
Carloadings: miscellaneous and l.c.l. (daily av., thous. of cars)	82	65	56	54	**55**
Carloadings: all others (daily av., thous. of cars)	53	45	42	41	**40**
Department store sales index (1947-49 = 100, not seasonally adjusted)	90	100	274	108	**103**
Business failures (Dun & Bradstreet, number)	22	258	166	260	**333**
PRICES					
Spot commodities, daily index (Moody's, Dec. 31, 1931 = 100)	311.9	432.1	393.7	393.4	**392.8**
Industrial raw materials, daily index (BLS, 1947-49 = 100)	††73.2	96.9	83.9	83.4	**82.8**
Foodstuffs, daily index (BLS, 1947-49 = 100)	††75.4	83.4	85.2	87.3	**87.6**
Print cloth (spot and nearby, yd.)	17.5¢	18.5¢	17.8¢	17.8¢	**17.7¢**
Finished steel, index (BLS, 1947-49 = 100)	††76.4	171.6	181.7	181.7	**181.7**
Scrap steel composite (Iron Age, ton)	$20.27	$55.50	$32.83	$34.33	**$35.00**
Copper (electrolytic, delivered price, E & MJ, lb.)	14.045¢	35.905¢	26.894¢	24.910¢	**24.885¢**
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.)	$1.97	$2.36	$2.18	$2.21	**$2.22**
Cotton, daily price (middling, 1 in., 14 designated markets, lb.)	**30.56¢	33.56¢	34.89¢	34.85¢	**34.77¢**
Wool tops (Boston, lb.)	$1.51	$2.21	$1.85	$1.78	**$1.78**
FINANCE					
500 stocks composite, price index (S&P's, 1941-43 = 10)	17.08	44.79	39.82	41.20	**41.63**
Medium grade corporate bond yield (Baa issues, Moody's)	3.05%	4.48%	4.98%	4.80%	**4.74%**
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate)	¾-1%	3⅝%	3¾%	3½%	**3⅜%**
BANKING (Millions of Dollars)					
Demand deposits adjusted, reporting member banks	††45,820	58,296	56,169	56,532	**56,556**
Total loans and investments, reporting member banks	††71,916	85,583	88,487	87,018	**86,521**
Commercial and agricultural loans, reporting member banks	††9,299	30,349	32,288	31,361	**30,857**
U. S. gov't guaranteed obligations held, reporting member banks	††49,879	26,330	26,087	25,945	**25,861**
Total federal reserve credit outstanding	23,888	25,636	26,687	25,390	**24,949**

MONTHLY FIGURES OF THE WEEK

MONTHLY FIGURES OF THE WEEK		1946 Average	Year Ago	Month Ago	Latest Month
McGraw-Hill Indexes of New Orders (1950 = 100)					
New orders for machinery, except electrical (seasonally adjusted)	**December**	N.A.	131	121	**122**
Construction & mining machinery	**December**	N.A.	157	119	**131**
Engines & turbines	**December**	N.A.	140	133	**143**
Pumps & compressors	**December**	N.A.	189	142	**135**
Metalworking machinery	**December**	N.A.	147	98	**73**
Other industrial machinery	**December**	N.A.	125	114	**134**
Office equipment	**December**	N.A.	151	142	**140**
New contracts for industrial building	**December**	N.A.	199	103	**80**
Imports (in millions)	**November**	$412	$987	$1,145	**$1,043**

** Preliminary, week ended January 25, 1958.*
† Revised.
†† Estimate.
*** Ten designated markets, middling 15/16 in.*
§ Date for 'Latest Week' on each series on request.
N.A.—Not Available.

THE PICTURES—cover—Grant Compton; 26—W.W.; 27—(lt.) Herb Kratovil, (rt.) W.W.; 29, 30—Noel Clark; 64—(top lt. & bot.) Black Star, (top rt.) Western Electric Co.; 79—W.W.; 84—Grant Compton; 85—(top) Herb Kratovil, (bot.) Grant Compton; 87—Grant Compton; 88—Herb Kratovil; 100, 101, 102, 103—Gene Pyle; 127—(top) Zeni-McKinney-Williams Corp., (cen.) Gulton Industries, (bot.) Grant Compton; 128—Grant Compton; 129—(lt.) Grant Compton, (rt.) Allen B. Du Mont Laboratories, Inc.

BUSINESS WEEK

EDITOR & PUBLISHER **Elliott V. Bell**
MANAGING EDITOR **Kenneth Kramer**

BUSINESS WEEK • FEBRUARY 1, 1958 • NUMBER 1483

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POSTMASTER . . . Please send form 3579 to Business Week, 330 W. 42nd Street, N. Y. 36, N. Y.

READERS REPORT

What Fringe?

Dear Sir:

In your article Dominion's Steel Industry Gets Big Ideas [BW—Dec.28'57,p56] you refer to Sydney, N. S. as being situated on the fringes of Canada's ever present wilderness. . . .

Last time I looked, Sydney, along with Boston and New York, was on the edge of the Atlantic Ocean. Further, Sydney lies about 3° south of the 49th parallel—further south than Seattle or Duluth. . . .

R. M. KINCADE
VANCOUVER, B. C., CANADA

• Sydney is right where it was the last time you looked.

Death Sentence

Dear Sir:

In [BW—Jan.4'58,p36] appears the comment:

"A death sentence for savings and loan holding companies is a fair bet. The House already has voted it for savings and loan associations insured by the Federal Savings & Loan Corp. The Senate may go along."

I would like to have you tell me what is meant by "death sentence."

W. R. JOHNSON
FITGER BREWING CO.
DULUTH, MINN.

• The designation of the savings and loan holding company bill as a "death sentence" actually is inaccurate. However, this is the name the bill has come to be known by in Congress, the industry, and the press. The word "death sentence" was used frequently in connection with the Public Utilities Holding Company Act of 1935. A section of the act got the nickname because it spelled the end of many utility holding companies, which were so common in the 1920s.

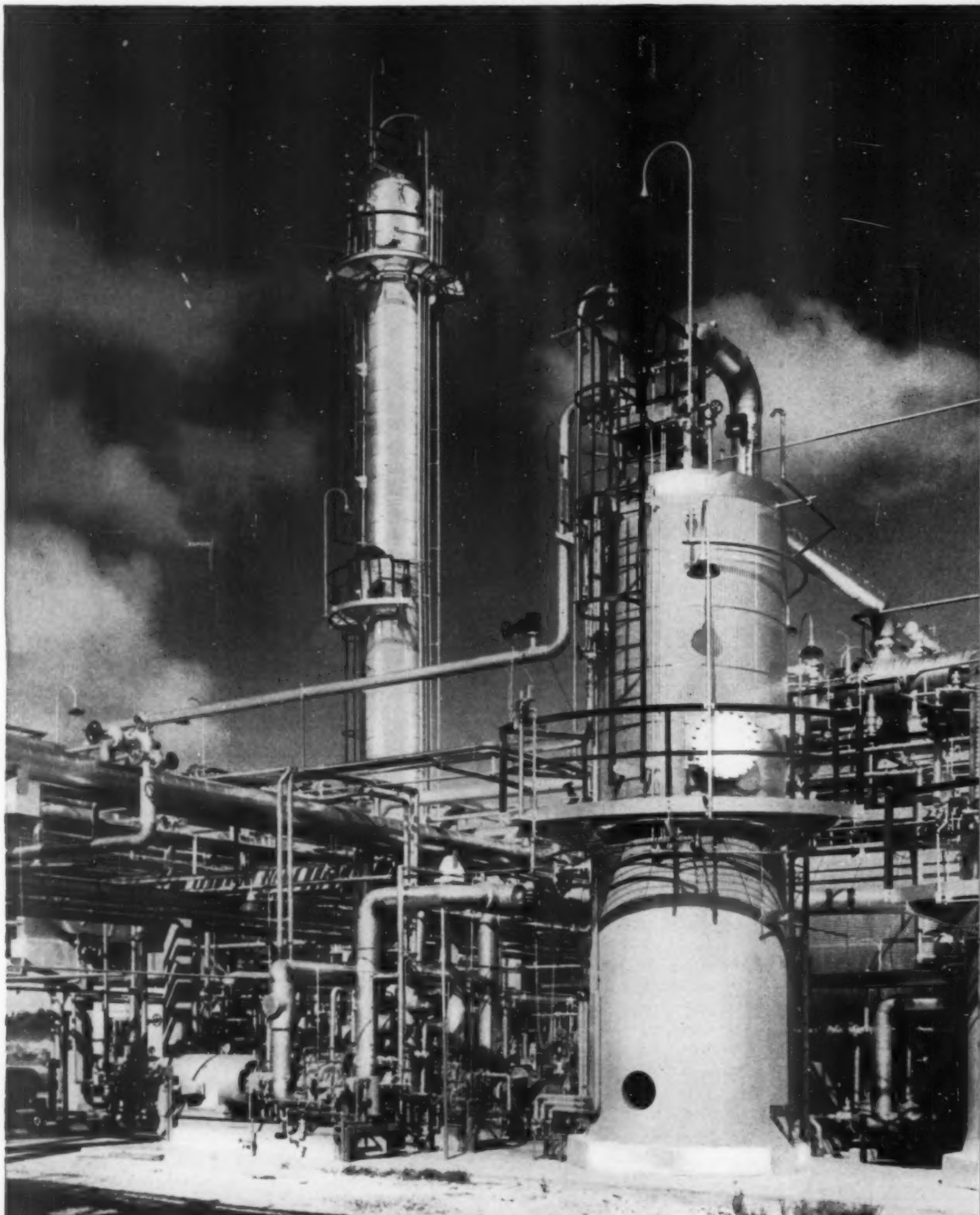
For Federal Union

Dear Sir:

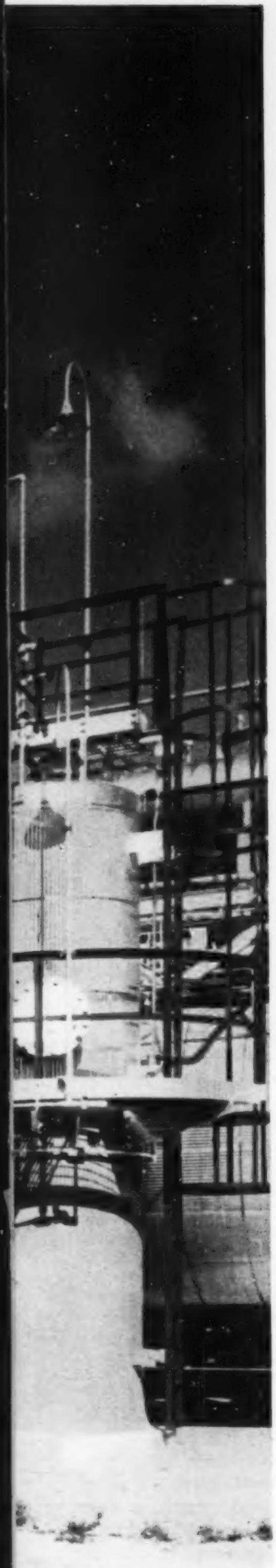
Your very interesting editorial in The Trend [BW—Dec.28'57,p120] seems to overlook a very important alternative in dealing with the Soviet threat today.

Look back into our history. Would there be a U.S.A. had the 13 colonies remained 13 independent sovereign nations united by an alliance only? The federal union of these states which evolved from the Philadelphia Convention is the foundation on which this, our su-

W. R. Grace & Co.'s 50,000,000 pound



high density polyethylene plant now in commercial production



* Multi-million dollar facility to produce GREX, the new high strength plastic resin.

* W. R. Grace & Co., Polymer Chemicals Division, reports GREX substantially improved over other resins, promising new horizons for plastics.

W. R. Grace & Co., Polymer Chemicals Division, recently put into commercial operation its multi-million dollar plant at Baton Rouge, Louisiana. First product is GREX, brand-new high density polyethylene. 50,000,000 pound annual capacity makes this the world's largest plant of its kind to come on stream as an integrated operating unit.

For several months, plastic fabricators have been testing and evaluating quantities of GREX with excellent results. Now, with this new plant, GREX is immediately available for large-scale commercial application.

"NEW CHEMICAL PRODUCT"

Officials of W. R. Grace & Co. express enthusiasm over the possibilities GREX offers the plastics industry, characterizing GREX as "plastic of tomorrow" and "new concept in plastics." According to Mr. T. T. Miller, Polymer President, "GREX differs from other plastics to such a degree, it merits being called a new chemical product."

Exceptional toughness and resistance to extremes of heat and cold are the outstanding property improvements to be found in GREX. Resistance to chemicals, impermeability to moisture vapor, good electrical characteristics, and rigidity are other property areas in which GREX excels. This new material can be injection molded, extruded, compression molded, blow molded, calendered, vacuum formed and foamed. It can be machined, punched, drilled, welded and heat sealed.

VERSATILITY CITED

What does this mean to the plastics industry? "GREX," explains Mr. Miller, "gives the fabricator a quality resin with outstanding versatility. GREX permits him to convert ideas for completely new plastic products into selling items. And by switching to GREX, he can upgrade his present plastic products.

The Polymer Chemicals Division laboratories at Clifton, N. J. include a full line of commercial size plastic fabrication equipment for development purposes. Here, a trained and seasoned technical staff works with Grace customers to learn what plastic products can be better-made with GREX, to uncover new uses for plastics, and to discover more efficient fabrication techniques. The Grace technical staff have also proved their ability to help a customer in his own plant.

OFFER MARKETING SUPPORT

The makers of GREX extend this support to the marketing of GREX products as well. Grace merchandising experts will work with fabricators, and through them, with customers, to help search out their most promising markets. Then, Grace will collaborate on sales and promotion planning to achieve increased sales.

Mr. Miller emphasizes that GREX is expected to make substantial gains in markets now dominated by other materials like glass, wood, metal, offering the plastics industry unlimited potential. There is virtually no business that cannot put GREX to good use.

INQUIRIES INVITED

"GREX is a new product with great promise," he declares. "We believe in it to the tune of over $20 million. But more important, we at Grace are willing to work to prove out GREX in actual applications. Anyone interested in GREX has only to write or phone us at our Clifton offices—225 Allwood Road, Clifton, New Jersey, GRegory 2-6000. His inquiry will receive our immediate attention and he can be sure of full cooperation from our entire organization."

Another great new Acco achievement—
ACCOLOY® KUPLEX Sling Chains

Speedy Sling Service with Engineered Safety

• The remarkable new ACCOLOY KUPLEX Sling Chain represents the successful culmination of years of intensive research and design by ACCO engineers. It gives further evidence of ACCO's steady progress in the design and manufacture of better goods...therefore better values ...for its customers.

No Other Sling Chain Is Like It

The ACCOLOY KUPLEX is unique. It is the first and only sling chain *completely engineered as a unit* that is quickly available from Authorized Distributors. Made up entirely of *matched and engineered components;* each part is designed and manufactured specifically for use with all the other parts of the complete KUPLEX Sling assembly.

All parts are made to ACCO Registered Specifications from heat-treated ACCOLOY steel, and are engineered to be as strong as the chain itself. All are *factory proof-tested* to twice working load limits.

Maximum Strength and Safety

You have never seen—nor have your operators ever used—a stronger, safer sling than the new ACCOLOY KUPLEX. For here is the sling that *always gives a safe lift* to your valuable loads, thanks to the matchless engineering, manufacturing and testing care given each assembly before it reaches you.

Speedy Sling Service and Engineered Safety • An ACCOLOY KUPLEX sling gives you unquestioned and unvarying quality and strength. It gives you an assurance which is lacking when you use homemade slings of questionable reliability. It gives you new parts for worn or damaged slings without delay. Thanks to the fast service available through nearby distributors, you can be assured of having the sling you need when you need it. This also means that your inventory investment in sling chains can be held to a minimum.

• • •

You have much to gain by standardizing on ACCOLOY KUPLEX sling chains: unsurpassed strength and safety, convenience, ready availability—and long range economy.

perbly successful nation, was able to grow in freedom.

Then, why not ask for an Atlantic Convention to prepare for the Federal Union of the sovereign nations around the North Atlantic and thus unite the 450-million free people in one nation to show the world how freedom unites, how freedom gives strength and thus give hope to the restive satellites of Moscow?

The unanimous resolution of the NATO Parliamentary Conference of Nov. 16 demands such a meeting. Why don't we grasp this idea and push into action and thus give victory to the free!

WINFRIED H. OPPENHEIMER
MEMBER OF THE BOARD OF
FEDERAL UNION
OPPENHEIMER, VANDEN
BROECK & CO.
NEW YORK, N. Y.

Well Done

Dear Sir:

I was more than pleased to see the article "Brewing a Drink of Sea Water is Easy—but Still Costly, [BW—Jan.11'58,p132]. This is the most factual statement on the subject that has yet appeared, and I could find nothing wrong with it. This is in sharp contrast to most previous publications which have been full of misstatements. Both you and your publication should be congratulated on this piece. . . .

G. E. SONDERMAN
SINGMASTER & BREYER
METALLURGICAL & CHEMICAL
PROCESS ENGINEERS
NEW YORK, N. Y.

Beryllium Bubble

Dear Sir:

Your comments on Beryllium Eyes the Aircraft Market [BW—Jan.4'58,p96] indicate a myopic memory. Original interest in the 1920s was as an aircraft material, while in 1942 it was predicted that "beryllium will bomb Berlin."

Producers of brass, bronze, and nickel silver will be surprised to learn that "nearly every copper spring" contains 2% beryllium. Usage of these copper alloys for springs in electrical equipment is many times that of beryllium copper. Although beryllium increases the strength of copper fourfold, it "hurts" the electrical conductivity roughly fivefold. . . .

JOHN T. RICHARDS
CONSULTANT
READING, PA.

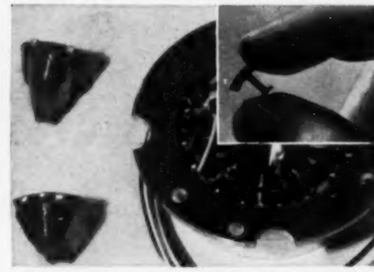
• Our story pointed out the problems manufacturers have had with

SILICONE NEWS

Electronics Go Miniature

Silicones Provide the Means

SMALLER, STRONGER MIDGETS WITH SILICONES—*Smaller, always smaller. Save weight, save space. These are standard in electronic specifications. As a result today's miniatures for home, industry and defense often pack as much power as their bigger predecessors. But when heavy work loads are concentrated in small units, heat problems frequently arise. Here's how Dow Corning Silicones help subdue the heat and make possible the highest efficiency for these electronic midgets.*



RUBBER SKULL-CAP — SAC's Snarks have silicones on the brain. Delicate electronic "thinking" centers in these missiles are embedded in RTV Silastic*, the Dow Corning silicone rubber that vulcanizes at room temperature.

Northrop Aircraft, producer of the Snark, finds that RTV Silastic fills a multitude of needs. First, it's easy and fast to apply . . . they squeeze it from a gun as you would a caulking compound. It sets up to a rubbery solid within 24 hours. Then come the operational advantages: RTV Silastic cushions the circuits against vibration or rough handling, protects against moisture, improves electrical properties, and is easily repaired with more RTV when it's necessary to open a unit for repairs.

No other material could supply these features and withstand heat in the bargain. That's why, for the Snark's intricate electronic brains, skull sessions start under RTV Silastic.

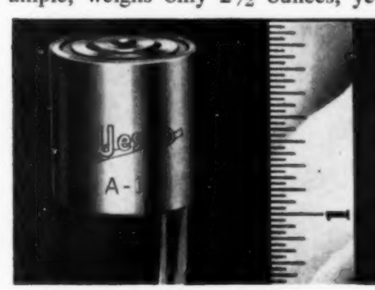
*T.M. REG. U.S. PAT. OFF.

"MIGHTY MITE" — To provide power in certain electronic control systems, Minneapolis-Honeywell has evolved a tiny new Servo motor. No larger than a golfball, and weighing a mere two ounces, this little unit nonetheless develops a stall torque of 0.75 ounce inches and will withstand operating temperatures of 500 F and higher.

Secret of the Servo's efficiency? Silicones. Dow Corning insulating resins and molding compounds are used extensively. They make sure of the mighty mite's ability to stand up under heavy duty. Designed to drive various of Honeywell's control system assemblies, such as calibrators, synchros, and similar components, the Servo is a fine example of how space and weight can be saved with silicones.

IT TAKES PULL — Solenoids are magnetic coils that "suck in" a metal plunger to activate a circuit, and they're rated on their pull. Naturally, you'd expect this pulling power to diminish with size. But with silicone insulation you actually get *more* pull in a smaller package.

By using Dow Corning silicone insulating components and Sylkyd* enameled magnet wire, the West Coast Electrical Manufacturing Corporation, of Los Angeles, produces miniature solenoids of surprising strength. The WESCO A-1, for example, weighs only 2½ ounces, yet



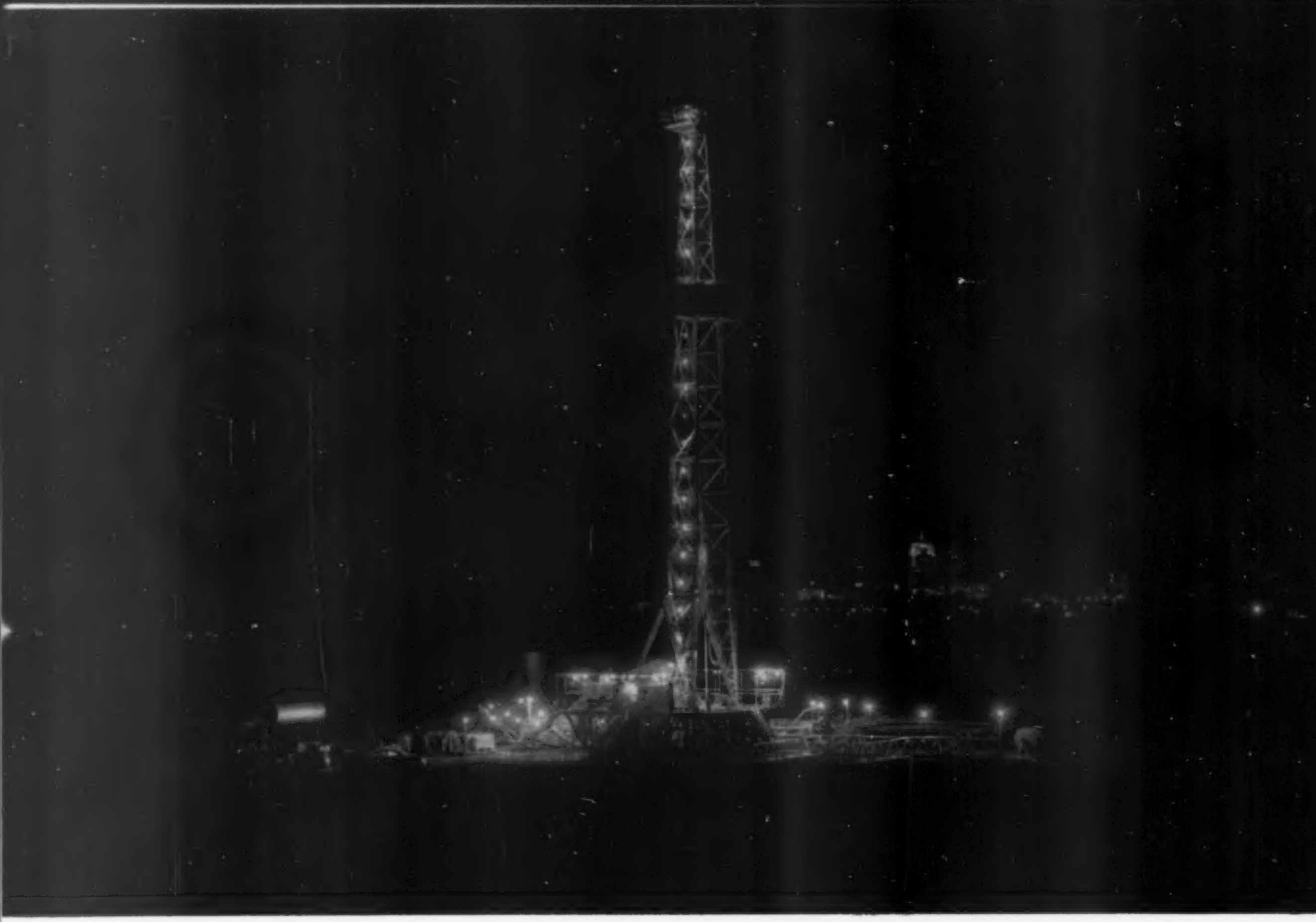
can pull 3½ pounds. An intermittent duty unit, the A-1 saves space and weight for manufacturers of industrial computers or airborne electronics systems. Another big plus: Silicones increase the solenoid's rated service life five times!

FOR MORE INFORMATION **on any of these silicone products or applications, write Dept. 222.**

first in silicones

Dow Corning CORPORATION
MIDLAND, MICHIGAN

ATLANTA BOSTON CHICAGO CLEVELAND DALLAS DETROIT LOS ANGELES NEW YORK WASHINGTON, D. C.
CANADA: DOW CORNING SILICONES LTD., TORONTO GREAT BRITAIN: MIDLAND SILICONES LTD., LONDON FRANCE: ST. GOBAIN, PARIS



Around the clock at Glover #1, drilling by the Nuckolls-Bell Drilling Company in the Oklahoma City field continues toward pay sand 6500 feet below surface. String of 4½" Grade D Pittsburgh Seamless drill pipe helps to drive to completion quickly, efficiently. Even at night, drilling crew knows that nearby Pittsburgh independent distributor will help out in emergency to keep rig running.

Born of the Oil Boom

Good service is natural to this Pittsburgh Steel distributor with three generations of field experience

Good service from this Pittsburgh Steel independent distributor is a family habit that started back around the turn of the century when a young blacksmith pounded out crude drilling tools for a supply house during the oil boom in the Oil City area.

Drillers of that day were constantly experimenting—devising a wide variety of tools to meet ever-changing conditions. Quickly, this man, who later founded his own independent supply company, learned to cater to the whims of these drillers and to make the tools they wanted when they wanted them.

As the search for oil moved steadily West—out of Pennsylvania into West Virginia and Ohio—across Illinois and Kansas—on to Oklahoma and Texas—the blacksmith and his family, which included four sons, followed.

The father continued to produce the tools needed by the oil men.

Eventually, the father and sons started their own supply business—opened their first store in 1926.

Past experience, their close every-day association with the needs of the booming oil industry, plus a desire to serve their friends, brought them recognition as leading suppliers of oil field production equipment.

Being independent, they could choose to handle only the best—which is why they picked Pittsburgh Steel Company seamless drill pipe, casing and tubing as an important part of their line.

One of their district managers, Wayne G. Wallace, says, "That decision to supply Pittsburgh Seamless to our customers has paid off—has helped maintain our reputation for handling quality material. I've sold thousands of feet of Pittsburgh drill pipe, for instance, and never had a minute's trouble. Everybody seems to be exceptionally well pleased."

beryllium in the past and the problems involved in the new Brush Beryllium study.

Social Security Change

Dear Sir:

The teacher shortage mentioned in your article Fight Over Federal School Aid [BW—Jan.11'58,p30] could be alleviated to a considerable extent if the Social Security Act were changed to permit payment of Social Security to men (and women) 65 who enter into or continue teaching at that age.

The salaries paid in high schools particularly are not sufficient to lure retirees into teaching with a loss of $168.50 per month in Social Security, but those salaries plus Social Security would be quite attractive to a sufficient number of qualified individuals to reduce the teacher deficiency to a minimum. Here is a liberalization of the act that really would do the country some good.

CHESTER H. PENNING
KINGSPORT, TENN.

Too Much "Borax"

Dear Sir:

The story Why AMC Can Gamble on its Small Car [BW—Jan.11 '58,p78] about George Romney's faith in small cars is a good one but it reveals a lack of intelligence on the part of the "big three."

If Ford interviewed 500 Volkswagen owners the wrong questions were asked or incorrect conclusions were drawn from the replies. The assumption that since the average (median) income was $7,100 that economy was not a reason for buying is not true. There are other ways to spend money besides on cars and the $7,100 median average owner of a VW might want to spend some of it on other things, be it hi fi, books, homes, travel. Too, there are several aspects to economy: (1) low original price, (2) low depreciation—not the $2,000 lost in two years in depreciation on an American car, (3) low license fee, (4) an average of 30 miles per gallon on a VW, (5) lower charges for service and less maintenance. . . .

The story mentions "fresh style." While one must be humble before the brains which command top salaries at GM it is hard to understand the thinking behind the styling of GM's 1958 line. They are boraxy and offensive esthetically. They insult the artistic intelligence of the public. . . .

JAMES H. HARGER
RIDGEWOOD, N. J.

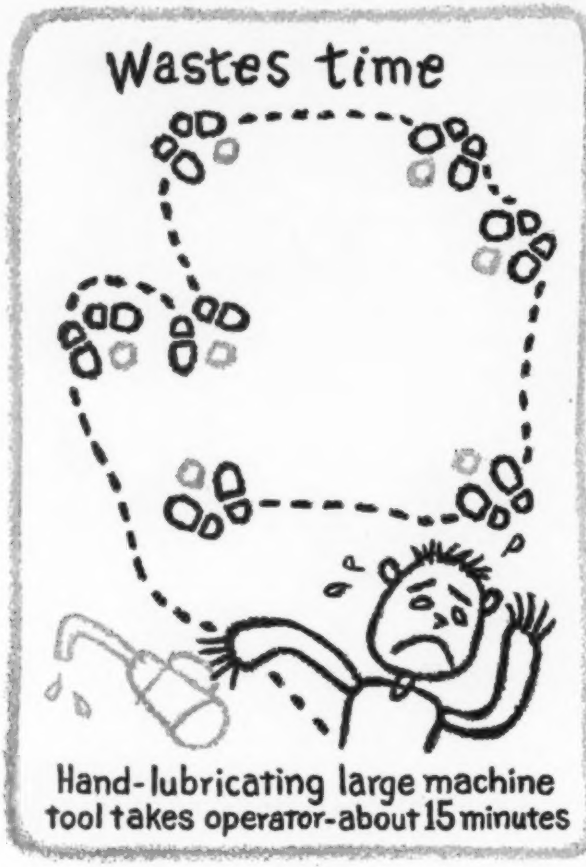
RAILWAY EXPRESS AGENCY

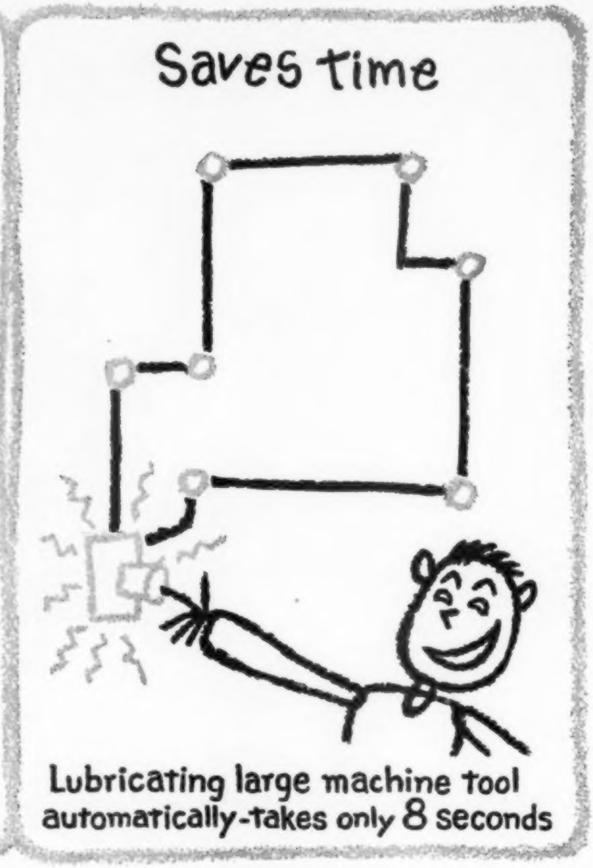
...makes The Big Difference

The big difference is SPEED
Railway Express is a complete rail-air-sea shipping service that carries your shipment safely and swiftly to any of some 23,000 communities in this country—and, via Railway Express World Thruway Service, to almost any point abroad.

The big difference is ECONOMY
When you specify Railway Express, you can be assured of *real* economy. Railway Express picks up and delivers (within REA vehicle limits) at no additional charge. And *one fixed charge* is all you pay from point of origin to destination.

The big difference is DEPENDABILITY
Up-to-the-minute equipment and completely modern methods of operation, as well as specially trained personnel mean direct, dependable deliveries. So whatever you're shipping...near or far...always depend on Railway Express for transportation at its best.


Wastes time
Hand-lubricating large machine tool takes operator-about 15 minutes


Saves time
Lubricating large machine tool automatically-takes only 8 seconds

BUSINESS OUTLOOK

A BUSINESS WEEK SERVICE

There were a few notes of hope in the metal trades this week.

These should not be mistaken for outright optimism at this early stage. It is more a case of the producers of primary metals feeling that the worst almost has to be behind them.

Prices of steelmaking scrap have stiffened ever so slightly.

Reliability of this market as a barometer frequently is questioned; mill men are likely to belittle it when it points down, but they are more willing to accept it when it points up.

Now, quite humanly, everyone hopes it means what it says.

Reports from the steel industry quite generally hold that the bottom has been reached. Perhaps this is inevitable when operations sink below 60% of capacity. (This week's rate is estimated at only a little better than 55%, with production as low as in early 1954.)

Hopefulness now is based on a slightly better flow of new orders.

Many customers, the industry feels, have inventories down to rock bottom; even hand-to-mouth buying represents some improvement.

Steel mills actually have been shipping a little more metal than their ingot output would indicate. They added a little to their own inventories late last year, looking for auto buying to spur ordering generally. Now they are letting these stocks go at the expense of production (page 110).

Sales pressure has steel mills reaching outside their "natural" territories. That is to say, they will absorb freight charges that they wouldn't consider paying in a tight market.

Moreover, big customers doubtless can chip a little off prices, mainly out of the "extras" added onto basic quotations. Reports of such concessions are widespread in the metal markets these days.

—•—

Production cutbacks, aimed at bringing supply more nearly into line with demand, have cheered nonferrous markets to some extent.

The most formal of these—and the one that has had the most immediate influence on prices—is the action in tin. **Cuts in first-half 1958 output as deep as 40% for some producers were announced** by the International Tin Council, the second restrictive move in a matter of weeks.

This sent prices of tin for future delivery above the spot quotation in London, sharply reversing recent discounts on "forward."

Copper, too, has braced a bit in world markets on news of new production cutbacks. One came in the U. S. last week, others in both Africa and Chile as this week started.

Meanwhile, domestic markets for major nonferrous metals are held above world levels by the expectation of tariff action in Congress.

Output of aluminum held up surprisingly well right through to the end of last year. However, inventories are believed to be heavy and there have

been announcements of cuts in this country in recent days, while Canada's outturn also is being reduced.

—•—

Plummeting prices of important industrial raw materials have helped ease the cost squeeze on industry over the past year, of course.

However, the long-run significance of the movement is deeper. It gave warning of the downturn taking place in business here. And it was symptomatic of a leveling off in the boom elsewhere in the free world.

Stabilization of prices of leading commodities traded in world markets, when it comes, very well could signal that the recession's bottom was at hand, just as their dive preceded the downturn.

Meanwhile, though, both the trend of business abroad and the deepening currency difficulties are afflicting prices—copper, lead, and zinc down 20% to 30% in a year, rubber 16%, wool 17%, and tin 8%.

Exporting nations like Britain and West Germany feel their customers' shortage of foreign exchange. At the same time, Britain and most of the rest of Europe are pinched for balances to pay for raw materials.

The sum of Europe's trouble (and it may not be receiving so much attention in this country as it should) is this: **We haven't the help of booming conditions abroad to help turn us upward as we had in 1954.**

—•—

Cocoa is among the few world commodities that has been immune to the price weakness—and its immunity is not due simply to the fact that it classifies as a food rather than an industrial material.

Cocoa's price has almost doubled within the space of a year—from 22¢ a lb. to almost 44¢. This reflects a steadily tightening supply condition, particularly the smaller crop in Ghana, the leading producer.

—•—

Shrinking demand for raw materials, combined with smaller world trade in manufactures, has sharpened the post-Suez slump in shipping.

Demand for oil—as an industrial fuel and to drive ships—is off most conspicuously. But the trouble is also marked in general cargo.

A sidelight has been the cancellation of orders with American shipyards for tankers totaling close to half a million tons and including one of the 106,000-ton supertankers.

—•—

Troubles both at home and abroad have cut U. S. output of bituminous coal 15% below its level at this time last year.

Exports have been lagging ever since last October, and the drop in steel output also has hurt. **But the worst blow has been slackening demand on coal's best customer, the electric utilities.**

Power output has trailed its year-ago level for two weeks in a row.

—•—

University of Nebraska agricultural economists have a name for it: This they classify as a "gold-plated" recession. And, while they think it will last some months, they call it "a sort of economic coffee break."

FOR THE COMPETITIVE EDGE . . .

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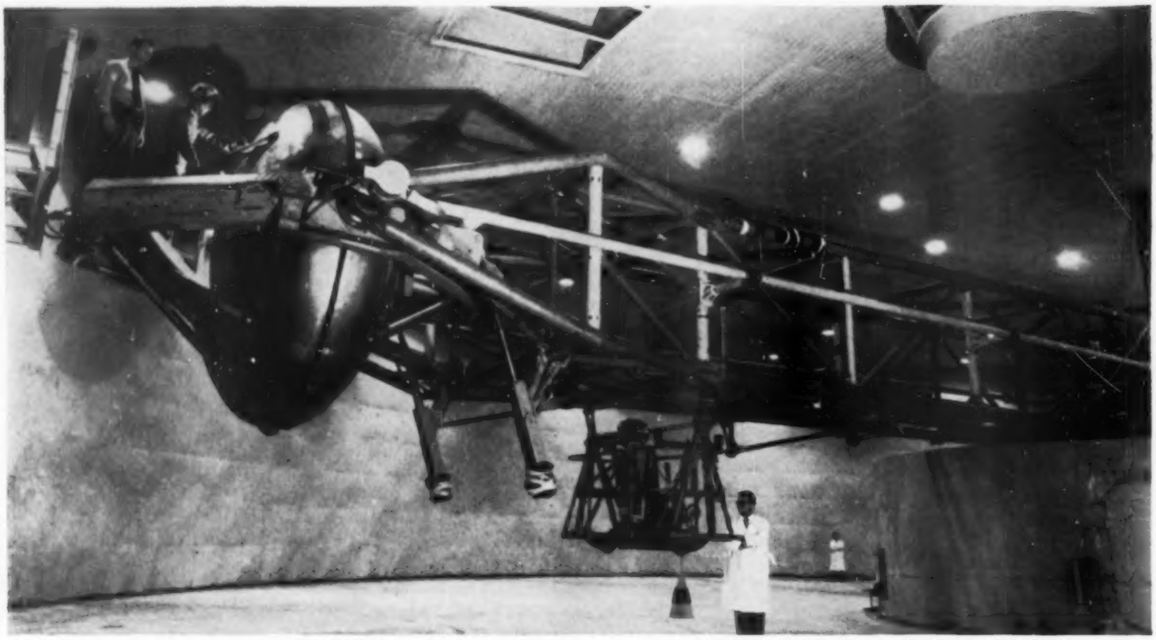

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Located in historic Bucks County, just north of Philadelphia, the Johnsville NADC is carrying out a multitude of scientific tasks designed to keep our Navy's air arm second to none. Johnsville, the Navy's largest aeronautical research and developmental activity, developed the radar early-warning systems for planes now cruising above the oceans bordering the United States. Tremendous studies have been made at this center in airborne anti-submarine detection systems, and Johnsville scientists developed the first mock-up of a vertical take-off fighter.

The NADC Aeronautical Instruments Laboratory at Johnsville is engaged in development and evaluation for the Army-Navy Instrumentation Program, and was first to develop the automatic artificial stability control for rotary wing aircraft. Other NADC projects include high-speed low-level cameras . . . techniques for underwater launching of guided missiles . . . and radio controlled drone planes carrying bombs, used so effectively against the enemy in Korea.

This defense center covers over 750 acres, including a Naval Air Station which provides aircraft for scientists carrying out their experimental missions. There are eight laboratory groups at Johnsville, specializing in computation; aircraft armament; systems for drones, missiles and other special aircraft; aviation medicine; air warfare research; aeronautical instrumentation; aero electronics; and experimental photography, a field unto itself.

Many unusual facilities are available to Johnsville's scientific staff of over 2,200 people. In addition to equipment such as the giant centrifuge illustrated, the center has one of the world's largest analog computers – the TYPHOON – which can handle an infinite variety of engineering and aerodynamic problems. Johnsville has a fabrication shop capable of manufacturing anything from a delicate instrument to a complete aircraft. Huge cold chambers are available to test equipment for use under conditions such as those encountered in Operation Deepfreeze, currently underway in the Antarctic. Johnsville is cooperating closely in the Geophysical Year – as well as turning out a wide variety of scientific developments for BuAer, the fleet, and Navy contractors.

This is one of a series of ads on the technical activities of the Department of Defense.

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BUSINESS WEEK

FEBRUARY 1, 1958

NUMBER 1483

An Oasis of Stability in 1958

● Housing should score at least 1-million starts in 1958—and probably do 5% to 10% better than that.

● This means there won't be the housing boom that some people were hoping would turn back the recession tide.

● Much depends on whether easier credit is able to offset the negative forces—fewer new household formations, lower income, joblessness, and consumer reluctance.

It now looks as if housing in 1958, at the very least, should hold steady at about 1-million starts. More likely, the number will climb 5% to 10% above that level.

For the economy as a whole, this means housing won't be quite the tonic some people had hoped. But it will still be a sturdy prop.

Housing's 1958 fortunes hinge on the outcome of an interplay between two forces:

• On the plus side, the easier and cheaper credit available.

• On the minus side, the lower incomes, higher unemployment, and hesitancy among consumers induced by the business recession.

• **Canadian Example**—Already, easier credit has restored confidence to the homebuilding industry. Moreover, the industry says, customers are beginning to show more interest in buying new homes.

Easier credit demonstrated its power to stimulate new residential construction during both the 1948-49 and 1953-54 recessions. And Canada furnishes another case in point.

Canada's recession began ahead of the current U.S. decline (BW—Oct.19 '57,p59), with even heavier unemployment. There, government efforts to pump more and cheaper credit into housing have already resulted in a sharp upturn in construction. Starts in November—the last month for which data are available—rose to 11,902 units from 8,049 recorded in November, 1956.

To be sure, for the first 11 months of 1957, starts still were 7.4% behind 1956. But this ratio has been dropping steadily since July, when starts were lagging 18% behind those reported the year before.

I. Balance of Forces

However, there are several reasons why credit ease may not be so therapeutic in the U.S. as in Canada—or, for that matter, as it was in the last two U.S. recessions.

Basic housing demand is weaker now, because of population factors such as the rate of new family formations (page 46). From 1950 to 1957, the average annual increase in the number of U.S. households was 856,000. From 1957 through 1960—as the "hollow generation" of the 1930s comes of age—the average yearly rise will be only an estimated 677,000. Figures on the growth in number of families headed by a husband and wife are even more striking: 519,000 per year from 1950 to 1957, only 272,000 a year in 1957-60. And these are the principal buyers of homes.

Of course, there is a demand for new housing to replace the 300,000 or more units annually burned, flooded, or otherwise demolished. And some demand stems from country-to-city migration. Even so, it's apparent that the need for more housing will be substantially less than in the early postwar years. This is made more likely by the prospect that households will be less mobile during the recession.

In Canada, there's much more demand still to be satisfied. Canada has been absorbing a flood of immigrants—165,000 last year. And there's a need to expand housing in communities that expanded in population during the rush to exploit natural resources.

The current recession seems to be more of a drag on incomes than the preceding two U.S. slumps, although no one can yet be sure. Today's sag is more general, and unemployment is mounting somewhat faster (BW—Jan. 11'58,p28). So homebuilders will probably have to contend with a pinch in consumer purses. The latest study of consumer attitudes by the University of Michigan Survey Research Center also suggests waning interest in new housing (BW—Jan.25'58,p131). But the results may already be outdated, since the survey was taken before the most recent easing in credit.

Both the Federal Reserve and the Administration appear more reluctant than in 1953-54 to stimulate housing—and the economy in general—with a flood of cheap credit, because of their lingering fears of inflation (BW—Jan.25'58,p25). And, in any case, there is usually a time lag between a loosening of credit and any noticeable effect on housing. In both 1948-49 and 1953-54, it took more than six months for housing to feel credit's restorative powers.

Thanks to some special circumstances it is possible that housing might pick up more quickly this time around. The industry was under extraordinary pressure from tight money until late 1957, and it was beginning to come out from under on its own, even without relaxed credit rules. That gives it a head start, compared with the previous recoveries, and with easier money it might bounce back that much faster.

• **Government Steps**—The Administration is stressing government programs to help it turn out that way. In January, the Federal Housing Administration rescinded the rule (adopted in April, 1955, to fight inflation) that closing costs could not be included in the maximum insurable amount of mortgages. Local FHA offices began to be more lenient on how many household appliances—such as refrigerators, washers, driers, and dishwashers—could be included in a mortgage. FHA also increased the permissible discounts on insured mortgages. And the Federal National Mortgage Association—Fanny-

Mae—upped the prices it would pay for mortgages, in order to increase the supply of funds to housing.

The Administration wants Congress to go still farther—to raise both the maximum loan FHA can insure and the statutory limit on the volume of FHA-insured loans. It would also like flexible interest rates on FHA and Veterans' Administration loans, to enable mortgages backed by government insurance or guarantees to meet the rates offered for money by other bidders.

II. The Builders Speak

These government moves met an enthusiastic reception among the homebuilders and building trades people—representing 85% of builder buying power—who assembled in Chicago last week for the annual convention of the National Assn. of Home Builders. Many told BUSINESS WEEK their markets had touched bottom in late 1957. Almost all reported January upturns in both sales and buyer interest—as measured by traffic.

All at once, the builders were finding credit lines where none had existed before. As one Dallas mortgage banker put it: "FHA at 5.25% suddenly looks mighty good to me." And a Detroit builder remarked: "This month is the first time I haven't had to rediscount an FHA mortgage. I never thought I'd see the day."

• **Changed Tune—**Small-volume builders also reported money easing in the last few weeks, especially in the field of mortgage credit from insurance companies. Said a St. Paul builder: "A large insurance company last week accepted two mortgages from potential buyers it wouldn't touch three months ago."

With the customers, many builders noted, the rate of interest was not so important as the size of the downpayment and monthly installments. A large Tulsa developer reported: "As soon as I could get mortgages stretched out 10 years longer so that payments were less, my business picked up about 50% in one month."

III. Mixed Profits Trend

There was less cheer in the discussion of 1957 profits. For the industry as a whole, they were estimated at less than 5%. Some reported good earnings, but these were mostly on custom-built homes and houses selling for more than $30,000. On homes tagged between $15,000 and $23,000, operators frequently reported losses or, at best, no profits.

• **Unemployment Bugaboo—**Though the builders interpret easier credit as boding well for 1958, many of them know credit can never be cheap enough to counteract unemployment. In industrial areas, where layoffs are heavy, many builders reported workers trying to trade down. A developer from the South Side of Chicago, close to the steel mills, said: "Workers are coming around every day trying to get me to take a $16,000 house for one of mine that sells for $12,500. They're willing to settle for getting $1,000 cash out of the deal."

A low-price builder from Dallas commented: "I have more equity tied up in trade-ins than I have money." And a large North Jersey developer, who has several tracts near aircraft and electronics plants, brooded: "Unless the economy picks up by summer, we'll be lucky to hang on."

• **Cost Bind—**All the builders are beset by rising land costs. Labor and material costs are under control. With some local variations, the continuing pressure on final housing prices now stems from land costs. The reasons:

• Cities are requiring more from builders in the way of streets, curbing, sewage and water lines.

• Builders are buying smaller parcels at a swoop—and, when possible, it's better land to begin with.

• Except in the East, buyers are demanding bigger lots with more improvements. This increases the ratio of land costs to building costs.

• **Summing Up—**The consensus found among NAHB delegates was that 1958 "can't be worse than '57." Builders look for prices to stay firm on new and old homes, for building costs to be roughly stable, for developments to grow smaller. They agree that speculation is decreasing; nowadays, a builder is apt to put up a model house or two, then build more only when he gets the orders. As for money problems, they think buyer interest will increase in proportion to the easing of credit—but there's wide disagreement on just how easy credit will really get.

Many in the industry put much hope in the continued expansion of spending on major home improvements, by customers who want to stay put but add more space or convenience.

But few builders, housing consultants, or economists in and out of government can foresee a jump in 1958 of more than 100,000 extra starts or a spending increase of more than $1.5-billion, including major improvements. Of course, this amount would be supplemented by outlays for necessary public works, furniture, appliances, and other expenditures that accompany new housing, which might add as much as $1.5-billion more.

A $3-billion boost in spending is not to be dismissed with sneers. But, of itself, it would fall short of offsetting a decline like the skid from the third to the fourth quarter of 1957—when gross national product dipped $6-billion.

AT ALLEGHANY, Allan Kirby will succeed the man whom he had often financed.

What Now

Financier Robert R. Young's suicide last week at his palatial Palm Beach (Fla.) estate was the ultimate admission that his hope of revitalizing the U.S. railroad industry was shattered. It also marked the beginning of a struggle to determine who would take over the properties he controlled.

By midweek, it was clear that no one man would replace Young. For in his role as undisputed head of both Alleghany Corp. and the New York Central RR, he had held together an unwieldy group of men—financiers, lawyers, operating executives, publicists. With Young gone, there are bound to be conflicts in the chain of command. But no one of his associates is likely to emerge as his sole successor.

Many of Young's closest friends and associates were gathered at his funeral in Portsmouth, R. I., this week. They included Alfred E. Perlman, president of the Central; Allan P. Kirby, president of Alleghany; real estate operator William Zeckendorf, of Webb & Knapp, and William C. MacMillen, Jr., of Chesapeake Industries, a holding company in which Young personally had a 20% interest.

• **Shifts So Far—**Some changes are already in the making. Kirby, who as an heir to the Woolworth chain had helped bankroll Young since the 1930s, is slated to take over Young's post as chairman of Alleghany. Perlman will remain at the Central, but with enhanced executive power.

AT CENTRAL, Alfred Perlman remains as president, but with enhanced power.

YOUNG HIMSELF reached peak in Central battles, had setbacks later.

For The Young Interests?

However, neither Kirby nor Perlman is expecting to replace Young. Perlman, strictly a railroad operator, will concentrate on the troubles of the massive Central. Kirby, a financier with many years as Young's associate, is unlikely to be more than titular head of Alleghany.

• **Spoiling Plums**—Moreover, neither Alleghany nor the Central is the impressive property it was when Young was at the peak of his power. In 1955, Young's first year in control of the Central, the road showed a net income of \$52.3-million, earnings per share of \$8.03. Last year, Central's net income was estimated at \$8.4-million, or \$1.30 a share. And Perlman fears that in 1958 the Central will be operating in the red.

The same is true of Alleghany, a holding company whose major investment is in the Central. In 1955, it had a net asset value per share of \$13.90. This week, Alleghany announced that the 1957 figure was down to \$9.05.

• **Clouded Ball**—The figures alone do not tell the whole story of the decline in Young's position. When he won control of the Central in a celebrated proxy fight with the old management, he predicted \$8-a-year dividends and a \$100-a-share price for the stock. Central had, in fact, a "regular" dividend policy of \$2 a year, but paid off partly in stock last year. And Central's directors, meeting in Palm Beach only five days before Young's suicide, omitted Central's first-quarter dividend.

In addition, Young had been unloading his own big holdings in the Central, holdings he had begun amassing in 1953, before the proxy fight. In all, he had purchased 100,200 shares of Central common at an average of about \$20 a share. Last October he sold 50,000 shares at about \$20 a share (Wall Street rumors are that this block was sold to his wife); in November, he sold another 21,700 shares at about \$16 a share; and in December another 27,500 at about \$15 a share. Ostensibly, this was done to establish tax losses. At his death he had only 1,200 shares of Central in his portfolio.

I. Modern Empire Builder

It is clear that Young's financial position—and his prestige—suffered some heavy blows in the last few months before his death. Yet his career had been studded with setbacks as well as successes. And his associates appear convinced that the declines in Alleghany and Central were not a major factor in his suicide.

From all the evidence, a number of factors contributed to Young's decision to take his own life.

Young fancied himself a modern version of the railroad barons—Harriman, Gould, Hill—who built the U.S. railway system. He was also a speculator with a penchant for buying into undervalued situations and reorganizing them for resale at handsome profits. That was how he got control of Alleghany, which was a grab bag of undervalued assets, including the Chesapeake & Ohio.

• **Dreams of Dominion**—It was his success with the C&O that fed Young's ambitions of building a transcontinental railway empire and resuscitating the railroad industry. Critics insist that Young's influence in the C&O, in particular his insistence on building passenger traffic on what is essentially a freight operation, would have ruined a shakier outfit.

But the fact remains that Young made big profits with the C&O. And it gave him the prestige and position to sound off with his sometimes grandiose and sometimes sensible ideas about railroading.

• **Vital Part**—The biggest step in making his dream a reality was gaining control of the Central, once the crown jewel of Eastern railroads. Along with the other Eastern roads, the Central was in bad shape. Young, however, was convinced that he could make the Central as profitable as the C&O had been.

Young's biggest enemies, the bankers, say the Central needed new management, but that Young himself was not capable of doing the job. They do not blame all of the Central's decline on Young, say that some of it was due to the drop in business that hit railroads—and the failure of the old management to make improvements sooner. But Young's dividend policy and his selling of Central real estate

had contributed to the decline, they argue.

To railroaders, Young always seemed more a railroad buff than a railroad operator. He always concentrated on passengers, although freight is the profitable part of the business. Young reportedly fought the Central's decisions to cut down on its passenger services and junk his publicized lightweight Train X plans.

• **Financial Distress**—Then, too, Young had had to sell some of Alleghany's most profitable investments in order to gain control of the Central. The C&O was sold to Cyrus S. Eaton. And a major portion of Alleghany's holdings in Investors Diversified Services, Inc., a money-making mutual fund concern, went to Murchison Bros.

Young was also beset with personal financial trouble. He was a speculative trader, and a good portion of his stock holdings were in Alleghany Corp. shares.

In 1954, he had announced a plan to recapitalize Alleghany by issuing new preferred stock in exchange for the outstanding preferred, of which Young held a big portion. But an injunction brought by Randolph Phillips, a former associate, blocked the action and prevented Young from using the shares for either collateral or trading.

In effect, these shares were frozen, and funds that he had borrowed by using them as collateral had to be repaid. The pledging of Alleghany preferred shares had given him part of the funds for his purchases of Central stock; and in order to repay bank loans, he not only had to sell his Central holdings but 30,000 shares of Alleghany common. By the end of December, he had only 17 shares of Alleghany common in his portfolio.

• **Harassment in Court**—According to an associate, Young was "harassed" by the law suit, a harassment that was "more mental than financial." Still, Young did have to sell many of his holdings at a loss. In addition, he took out a $100,000 mortgage on undeveloped property he owned in Newport, R. I., where he summered—and entertained—in a 40-room mansion. This mortgage was also arranged in December.

Ironically, two days after Young shot himself, the U.S. Supreme Court decided in his favor when it ruled that the Interstate Commerce Commission could approve the issue of Alleghany stock without requiring prior approval of Alleghany's control over the Central. Most legal men feel that this decision practically assures that Young's recapitalization plan will go through.

• **Previous Crises**—Law suits were nothing new to Young. But he was often upset by them. In the late 1930s, he suffered a nervous breakdown during the protracted struggle for the control of Alleghany.

He was also deeply affected by the death of his daughter, his only child, in an airplane crash in 1941. Young had another breakdown after her death, and, friends say he was often the victim of "bouts of melancholy" brought on by this tragedy.

All these circumstances undoubtedly played a part in his suicide. Most of the Central's directors, who met with him last week, report that he was "in good spirits." But for the past year he had not been so active in Central affairs as he had earlier.

• **Changed Man**—It it significant that Young kept silent when the Central and the Pennsylvania Railroad announced they were considering a merger (BW—Nov.9'57,p31). Railroad men feel Young might well have originated the proposal, but if he had, it would have been launched with the kind of fanfare that always accompanied his ideas. With the benefit of hindsight, they figure that Young's silence should have been an indication that he was no longer intent on carrying through his plans. And he was mute, too, during the recent hearings in Congress—which Young always liked to use as a platform. This was another sign that he had changed.

II. Road Ahead

It is also clear that Young's death does not mean a crash for his properties. Both the Central and the Alleghany are depressed, but Young was not an Ivar Kruger, the Swedish match king, whose death meant the end of a financial empire.

The stock market, at least, did not reflect any special fears. Robert L. Cahill, long-time specialist in Central stock, had a big job matching buying and selling orders on Monday. But when it was finally traded about an hour and a half after the market opened, 12,000 shares changed hands at $15.37, off only 12¢ from its Friday closing; and when the day ended, it was back up to its Friday close. Alleghany closed up 75¢ on the announcement of the Supreme Court's decision.

Analysts say both issues were already depressed. Omission of the Central dividend and Young's sale of his holdings had pushed down the price of the stock. Young's death, coming as it did over the weekend, did not create any new wave of selling.

• **Bullish on Central**—But it does mean that changes will take place in both organizations. And some bankers feel that Central will be able to improve its position over the long run.

Most bankers—and railroad men—are impressed with the job that Perlman has done on the Central. It is an open secret that Perlman and Young did not always see eye-to-eye about running the railroad. Young was mainly interested in promoting his big dreams, while Perlman moved slowly and cautiously to improve the Central's operation. In particular, bankers are critical of the sale of Central real estate, which was under Young's direction rather than Perlman's.

• **Perlman on Top**—Last summer, one of Young's closest associates, Thomas Deegan, a Central vice-president, was removed from his position, allegedly at Perlman's insistence. Deegan, who was instrumental in running the successful proxy battle for the Central, remains a director of Alleghany, but railroad analysts believe his leaving indicated Perlman was in control.

Now, with Young gone, Perlman is expected to solidify his position. He will have a freer hand in all operations. Analysts do not expect any early improvement in the Central's position, but they feel the long-term prospects should improve. As one banker put it: "Perlman is too smart a railroad man to stick to dividend policies or passenger plans he knows he cannot meet."

• **Alleghany's Next Part**—Control of the Central still rests with Alleghany Corp. and with Kirby, who himself has 300,000 shares of Central stock. But Kirby is not likely to push Young's ideas and concepts with anything like Young's fervor. In fact, Kirby has always stayed in the background, and it now appears likely that Alleghany will play a much more subdued role.

It is probable that Alleghany will keep most of its holdings in the Central —at least as long as the stock is so depressed. But it is doubtful it will be the kind of vehicle for speculations that it was under Young.

For example, Young put Alleghany heavily into Webb & Knapp. A number of his associates were critical of the deal. But Young went ahead anyway.

It is also reported that some of Young's associates were against selling control of Investors Diversified Services. Robert W. Purcell, who was president of IDS and a close associate of Young's, left his job when Young sold. Now a director of International Basic Economy Corp., Purcell is still on the board of IDS, but he is not involved in other Young interests.

Although there is no direct heir to Young's position, Wall Street believes Kirby will appoint an operating head for Alleghany. The most likely candidate is David W. Wallace, who is vice-president and secretary of Alleghany. In addition, he is a director of Webb & Knapp.

WITNESSES before the Joint Economic Committee hearings give their views on the cause and cure of the business downturn.

Economic Report Under Attack

Non-government economists are critical of President's tactics, but they pretty well agree on what should be done.

The Administration's prediction of a business upturn later this year is running into criticism and skepticism this week from witnesses before the Joint Economic Committee of Congress.

Witnesses are largely economists from universities, business, and associations. But even a group of government experts did little to lessen the over-all impression that Pres. Eisenhower and his Council of Economic Advisers are more optimistic than the great bulk of professional opinion.

• **Critical**—It's traditional to have sharp differences expressed at these hearings, held annually by the committee under provisions of the Employment Act. But this year, the non-government experts are being unusually harsh on the President's Economic Report (BW—Jan.25 '58,p25)—and they are showing a surprising amount of agreement among themselves over what the Administration should be doing.

A tax cut to spur consumption is the step most often cited as needed to round out the government's anti-recession policies. When the committee reports to Congress later this month, it will probably recommend a look at the tax rates early in the summer.

The Administration will have a chance to speak up for its own views next week, when top officials appear before the committee.

• **Tax Treatment**—The committee this year made an effort to get some new names among the witnesses rather than depending solely on the veterans of such hearings. One newcomer, James S. Duesenberry of Harvard, produced an unusually comprehensive analysis of what caused the recession and how it should be treated.

Duesenberry, a specialist on consumption economics, told the committee that a decline in business spending for new plant and equipment is occurring because real consumer demand is not keeping pace with capacity. Capital expenditures at the rate of recent years could not have been maintained indefinitely, Duesenberry concedes. But if real consumer income had been rising at something like 3% or 4% a year as it has many times in the past, "excess capacity would have developed at a very slow rate and the boom could have gone on much longer." Actually, real income has gone up very slowly since 1955, he added.

One reason cited by Duesenberry for this slow rise is high taxation. When incomes fall off, he reminded the committee, it is customary to point out that tax liabilities decline, thus absorbing some of the pinch on consumption —the "built-in stabilizer" function of taxation. When business is booming, the same tax structure serves as a "built-in brake" on consumer purchasing power.

Duesenberry would have gone to the aid of the consumer with monetary and fiscal aid as early as the second quarter of 1957. He thinks selective credit controls should have been used to help home buyers and state and local governments, for example, while general credit tightness was used to slow down industrial investment and commercial building.

Right now, he would like to see Congress increase government spending or cut taxes—with spending getting his nod. If a tax cut is voted, he recommends that it be temporary, ending by mid-1959.

• **Opposing Views**—Gerhard Colm, chief economist for the National Planning Assn. and a veteran of the eco-

nomic hearings, told the committee that the Administration's anti-recession programs seem inadequate. He pointed out that the current rise in defense contracts—a major reason for the Council of Economic Advisers' hopeful forecast—will do little more than take arms-buying back to the point where it was before last year's sharp contraction. The upturn in contracts should "have some effect" but "it cannot be expected to bring the economy back on the track of sustained economic expansion." Colm would like to see Congress vote substantially higher levels of spending, but lacking that, thinks a tax cut will be needed.

Walter Fackler, assistant director of economic research for the U.S. Chamber of Commerce, was one panel member who thinks the Administration has the right slant. As a personal hunch, he told the committee he thinks the slump will be fairly mild and short-lived.

• **Starting Points**—Here are highlights from the testimony of experts that the committee used as a starting point for its deliberations:

• Miles Colean, a consulting economist to the construction industry, challenged Administration predictions of a substantial upturn in housing starts. The demand exists, Colean concedes, for a rise from last year's 990,000 starts to 1.1-million starts this year (page 25). But he thinks the Federal Housing Administration's slowness in processing requests for mortgage insurance will keep this demand from being effective, even with more credit available for mortgage lending.

• Louis Paradiso, assistant director of the Commerce Dept.'s Office of Business Economics, nailed down the actual extent of the rise in government spending. Federal purchases of goods and services were running at an annual rate of $51-billion in the third quarter of 1957, and are now around $49.8-billion. By the second quarter of 1959, the rate is expected to be $52.8-billion reached by a series of gradual increases.

• Myron S. Silbert, vice-president of Federated Department Stores, Inc., Cincinnati, told the committee he expects no important price changes this year. He painted an inventory picture that implies a rise in business spending shortly if consumer demands holds up, and even recommended a more aggressive inventory policy to businessmen as a means of checking the recession.

• Douglas Greenwald, of the McGraw-Hill Dept. of Economics, said nothing has happened substantially to change the picture of last November when a 7% decline was anticipated for plant and equipment spending. He believes the actual drop will be no more than 10%, and may still be only the 7% originally foreseen.

Reuther's Opening

"We haven't been pushing the price movement—labor has been chasing it."

"The auto industry's profits are more fantastic than any others in the world."

"I've never accused the auto companies of being inefficient—just selfish."

Kefauver's look at "administered prices" started as a preview of Walter Reuther's coming fight with auto companies.

This week, Sen. Estes Kefauver's Senate Antitrust & Monopoly subcommittee opened its investigation of so-called administered prices in the auto industry—and found itself a forum for Walter P. Reuther's opening blast in the 1958 auto labor bargaining.

Reuther, as president of the United Auto Workers, talked for two days, passionately promoting UAW's controversial profit-sharing plan (page 100) not only as a reasonable bargaining request but also as the key to solving what Reuther calls the "imbalance" between industry's production capacity and consumers' buying power.

• **Disclaimer**—Chmn. Kefauver opened the hearing with a warning that the committee didn't intend to "mediate a wage dispute." Its job, he said, is still the same as in the steel hearings last summer (BW—Aug.24'57,p31): "to examine the pricing practices in our major industries in order to determine whether our antitrust laws are adequate to effectuate the fruits of competition to the American public."

Kefauver raised the same charge in the steel case that Reuther raises in the auto hearing: that manufacturers fix prices to suit themselves, regardless of the laws of supply and demand. The steel hearings sputtered out without any noticeable effect, and no one seriously thinks any important legislation will come out of the present hearings.

But Reuther's appearance as the first witness gave the committee the flashiest possible sendoff for its 1958 round of investigations, in exchange for about the best platform Reuther could have for broadcasting his views and his personality.

His performance made it tough, observers agreed, for industry spokesmen to follow. The industry is represented by Harlow H. Curtice of General Motors, T. O. Yntema of Ford, L. L. Colbert of Chrysler, and George Romney of American Motors.

I. Tour de Force

Reuther turned up at the hearing with his brother Victor and his top economist, Nat Weinberg, with an armload of documents—a 110-page prepared statement, a supplementary statement, and a 29-page booklet of tables and charts.

Except for frequent reference to

Attack on Auto Pricing

charts and statistics, Reuther practically ignored his prepared material. Instead, he spoke extemporaneously on subjects ranging from famine in India to wages and prices in the U. S. He blistered big business management and its motives. He appealed for cooperation between labor and management. And he lectured a rapt audience at length on the aims of his union.

The first day was all Reuther. The few questions that senators asked him merely fed his punch lines. The huge Senate caucus room was packed to the doors with spectators—UAW and AFL-CIO staffers, observers from the auto and steel companies, a sprinkling of antitrust lawyers, and many of the normal run of sightseers.

• **Heated Exchange**—The only real flareup and challenge to Reuther during his two days on the stand came when Sen. Everett Dirksen (R-Ill.) tried to get Reuther to admit that his share-the-profits plan is a publicity stunt—just as, Dirksen contended, his "open-the-books" plan was a publicity stunt in the late 1940s.

Reuther said he was dead serious "about getting the price of automobiles down so the consumer won't be short-changed." Reuther agreed to Dirksen's contention that if Reuther got all his 1958 demands, it would be the "biggest package" ever won by the union.

Reuther and Dirksen tangled heatedly after the senator suggested Reuther's profit-sharing figures "wouldn's stand the light of day." Reuther countered that Dirksen had a right "to be their (GM's) representative here," but later said he only meant that Dirksen "represents GM's views."

At the end of Wednesday afternoon, the committee decided to recall Reuther at some time in the future—date unscheduled.

II. Auto Prices

Reuther charged that companies rig the prices of cars so as to "set aside" the law of supply and demand, at levels that "shortchange" the customer as well as the worker. This example of administered prices, he said, is "close to the source of the imbalance in the American economy today."

The pressure on auto prices, said Reuther, hasn't come from wage boosts but from the desire of big business for ever higher profits. "We haven't been pushing the price movement," he testified. "Labor has been chasing it."

At the moment in history when America needs to be strongest, he cried, "our economy is limping along," largely because the Big Three auto makers have been "siphoning off purchasing power," which has led to unemployment. The UAW is disturbed, he said, "because the American economy is freedom's greatest material asset."

• **Fishbowl Pricing**—Reuther urged that big companies be required to justify price increases before a public agency, not to put business under a price czar or government regulation but to put "private economic decisions" in a "fishbowl" when they affect the whole economy. Then the public would know who was responsible for price increases.

III. Profits and Wages

Reuther insisted that if auto management would take the trouble to consider the profit-sharing plan, it would find the scheme worthier than Detroit spokesmen seem to think. It is unorthodox, he admitted, but no more so than retirement and supplemental unemployment benefits or other UAW ideas were when first proposed.

The profit-sharing plan is "not a public relations stunt," he declared. "We want to talk about wages, prices, and profits at the bargaining table because you cannot separate them," he said. "This is a good industry to start with because its profits are more fantastic than any in the world."

• **Excessive Profits**—Auto profits, said Reuther, represent a "disproportionate share" of gross national product. GM profits, for example, rose 270% between 1947 and 1956, he said, while wages of GM workers rose only 72%. In 1947, a GM worker made \$1.44 an hour; in 1955, he made \$2.18. If wages had risen as fast as profits, Reuther declared, the average GM worker would have made \$6.60 an hour in 1955.

"We're not here because we dislike GM or Ford," Reuther said. 'We're here because we dislike what they're doing to our economy."

At one point, Sen. Alexander Wiley (R-Wis.) interrupted to ask if Reuther thought the layoffs and shutdowns in the auto and farm machinery industries were due to corporate inefficiency. "No," Reuther shot back, "I have never accused them of being inefficient—just selfish."

• **Bargaining Goal**—The union's goal is the sharing of "excess profits"—those above 10% on net capital, before taxes—among stockholders, workers, and consumers. Under this plan, 50% of this excess would remain with the company, its executive incentive plans, and its stockholders; 25% would go to the workers, and 25% would be rebated to customers who had bought GM automobiles.

Sen. Kefauver asked if this scheme might not increase the very concentration of market that Reuther was criticizing. Customers might, he suggested, buy GM cars to boost GM's profits and get bigger rebates, in preference to buying cars from less profitable companies. Reuther replied that putting more money into the hands of the buying public would help the independent auto companies, too. Besides, he said, some people will always prefer a Studebaker to a Chevrolet.

• **Nothing Radical**—Reuther spoke bitterly of industry criticism of the profit-sharing idea. "They rejected it," he said, "before they even had a chance to read it, let alone think it through properly." There's nothing radical about profit-sharing, he said. He particularly resented GM Pres. Curtice's criticism of the plan as "extravagant."

Between 1947 and 1958, Reuther said, Curtice received almost \$4-million in salaries and bonuses, while the UAW plan—if it had been in effect in those years—would have given the average GM worker a little more than \$6,000 in extra income in 10 years.

"Now Curtice says he's 'modest' and we're 'extravagant,'" Reuther blazed. "I don't think anyone will buy that kind of cockeyed arithmetic."

IV. Detroit Speaks Up

Later in the week, Curtice of GM was ready to take the witness stand with a retort to Reuther's "excessive profits" charge. His prepared statement did not allude to the UAW's 1958 wage demands or its profit-sharing proposal. But he termed Reuther's call last August for a \$100 price cut on 1958 models "just another public relations job."

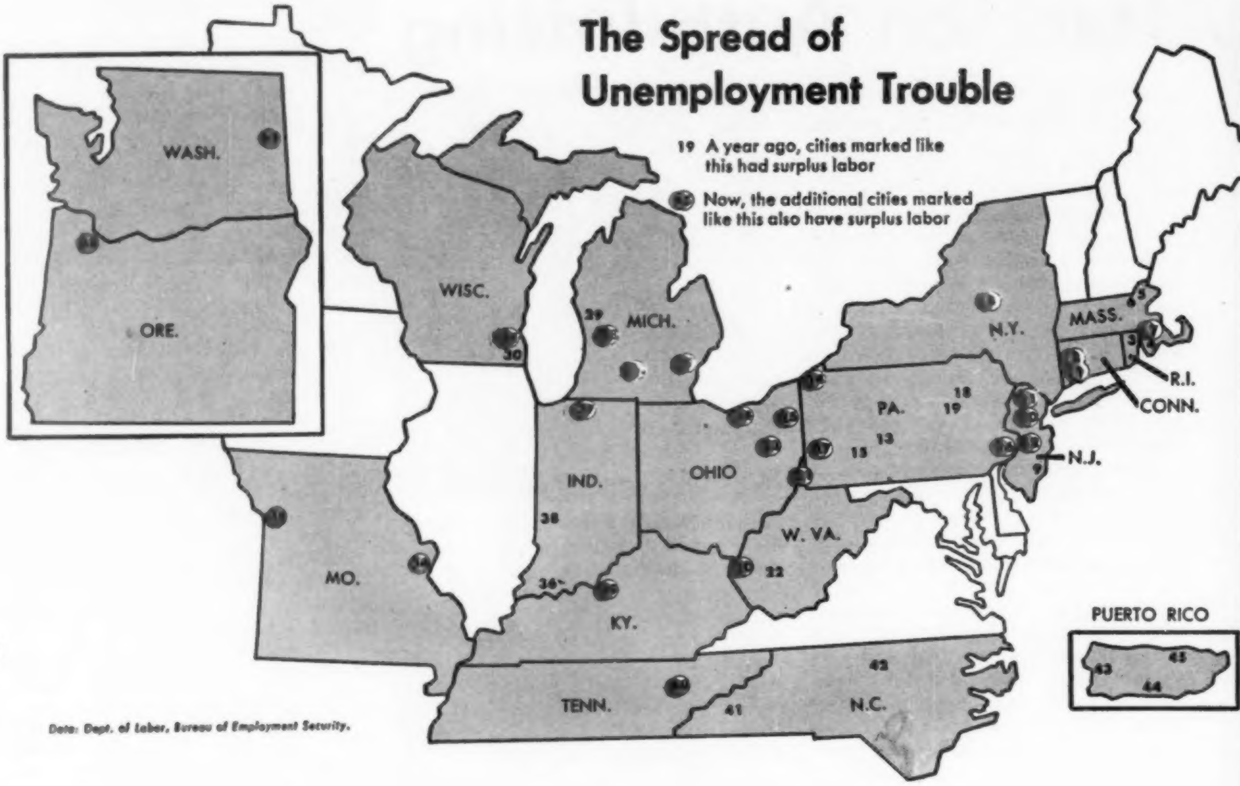
• **Profits Squeezed**—Far from gouging the public and the workers as Reuther pictured it, Curtice claimed GM isn't raising prices as fast as costs of manufacture are going up.

He cited figures for a "composite car," defined as the average of all passenger car models in GM's five lines, weighted on the basis of projected sales volume.

On this basis, Curtice said, the cost of the composite GM car has risen \$125 since the 1957 models while the wholesale price has been boosted only \$74. "In other words," he said, "for every dollar of increase in our known costs, price has increased only 60¢."

General Motors is seriously concerned about inflation in the economy, Curtice told the committee. But, he argued, "There can be no automatic 'wage and price formula'—short of arbitrarily-enforced wage and price controls—that can be applied to the problem of inflation."

The Spread of Unemployment Trouble



Hard-Hit Areas Multiply

Number of major areas with "substantial labor surplus" jumps from 19 a year ago and 24 in November to 45 in latest Labor Dept. check.

As the nation's unemployment total mounts (BW–Jan.18'58,p34), its impact is spreading to more and more cities, mainly in the eastern half of the U.S. Over the past year, as you can see by the map, the number of major city areas hard hit by joblessness has more than doubled. Most of the increase has come since last November.

The Labor Dept.'s Bureau of Employment Security, surveying 149 major labor market areas in the country, classifies as areas of serious joblessness—or "substantial labor surplus"—those in which unemployment amounts to 6% or more of the labor force.

A year ago, the bureau listed 19 major labor market areas in this category. By last November, the number had risen to 24; since then, 21 more have been added. In its survey this month, the bureau finds a condition of substantial joblessness in 45 of the 149 areas included in its tally. All but five of the hard-hit areas (three in Puerto Rico, two in the Northwest) are in the eastern half of the country.

• **Gradations**—Not all the 45 areas (the Labor Dept. includes surrounding territory as well as the cities themselves) are equally hard hit. The Labor Dept. has six classifications of labor supply-demand conditions. On the fortunate end are areas with "critical labor shortage" (there are none now) and those with "job opportunities slightly in excess of job seekers" (13 areas in this month's survey).

The 45 hard-hit areas fall into the three groups at the other end of the scale. Most of the 45 are in the first, or least badly affected, of the three groups. Cities that moved into this group since November include the key centers of Philadelphia, Pittsburgh, St. Louis, Kansas City, Louisville, Newark (N. J.), and Portland (Ore.).

Seven areas are in the next group, with a "considerable" excess of job seekers over openings—Erie (Pa.) and Muskegon (Mich.), which fell into this group since November, and Providence, Atlantic City, Altoona, Scranton, and Wilkes-Barre-Hazleton. Only two areas—Mayaguez and Ponce in Puerto Rico—are in the last and worst-hit group.

• **Cutbacks**—This winter's jumps in unemployment are attributed largely to cutbacks in manufacturing industries—particularly aircraft, autos, machinery, and metals. Employers in the aircraft, auto, and electrical machinery industries expect further declines; but the bureau indicates the possibility of some tapering of the employment slide by mid-March, with some pickup in construction, apparel, chemicals, and some machinery groups.

Bridgeport	22 Charleston
Waterbury	Canton
3 Providence	Lorain—Elyria
4 Fall River	Youngstown
5 Lawrence	Battle Creek
6 Lowell	Detroit
New Bedford	Grand Rapids
Utica—Rome	29 Muskegon
9 Atlantic City	30 Kenosha
Newark	Racine
Paterson	Spokane
Trenton	Portland
13 Altoona	Kansas City
Erie	St. Louis
15 Johnstown	36 Evansville
Philadelphia	South Bend
Pittsburgh	38 Terre Haute
18 Scranton	Louisville
19 Wilkes Barre—Hazleton	Knoxville
Huntington—Ashland	41 Asheville
Wheeling—Steubenville	42 Durham
	43 Mayaguez
	44 Ponce
	45 San Juan

Less Demand for Loans in '58

● **With rates and terms easing, corporate treasurers see less need to hurry to their sources of funds.**

● **Most companies in BUSINESS WEEK survey are going ahead with expansion, but much of the financing of 1958 capital expenditure was arranged last year.**

● **There's general cautiousness about budgets and inventories, but hope for a midyear upturn.**

Corporate demand for credit in 1958 will be less than in 1957, according to a BUSINESS WEEK survey of large and medium-sized companies in all parts of the country.

But it won't be because credit is hard to get—very few companies admit they were squeezed by tight money in the last two years, and still fewer think they would have any trouble getting all the money they want in '58. Rather, the decline in credit demand is due to:

- The historic fact that when borrowing costs are falling, there's less pressure to get into the money market, much as there's less urgency about buying commodities when prices are falling. "We don't expect to borrow in 1958," says a Milwaukee manufacturer. "But if we were, we would take out a short-term loan because we wouldn't want to be tied down to the present interest rates for a long term."
- A small cut in expansion and modernization plans for 1958, along with the fact that financing of this spending was arranged last year.
- A general air of cautiousness about business, leading to heavy cuts in inventory and cuts of varying intensity in operating budgets. Many company spokesmen, however, predicted a turnabout at midyear and possibly increased demand for loans after that to carry inventory and receivables.

I. What Credit Squeeze?

Responses to questions about tight money and the Federal Reserve's moves toward ease (BW—Jan.25'58,p34) fell into two groups.

"Tight money? It never was tight—for us," was one typical answer. And a Midwestern manufacturer went so far as to say, "I can't recall that in my experience I have ever seen easier money." His company, he explained, has been getting all it needed.

The other typical reply went something like this: "Yes, money has been tight. No, we don't expect easier money in 1958—it takes a long time for Federal Reserve action to have any effect in the field. The interest rate goes up fast, but it comes down slow." Even bankers seem to hold this view. Said a bank president in upstate New York: "These reductions are lovely things for the experts to talk about, but they will be felt only very gradually."

A cut in the New York City prime rate, he pointed out, has a far lesser effect in "provincial" banks, which have few loans anyway at the prime rate.

Some responses covered both views. "I don't think there will be easier money," said the treasurer of a Corn Belt manufacturing concern. "It is more likely to be tighter."

Still others declared that interest rates don't matter much. "You don't let the interest cost stand in the way of expanding your business," said a drug manufacturer. "You aren't bothered whether it is 2½% or 4½% if you can make 15% on the money."

• **No Sympathy**—Some businessmen, stressing their own stature as credit risks, were as stern as bankers about other businessmen's troubles in getting loans.

"It's not hard to borrow money if you have anything to put up," said a Memphis executive. "People talk about tight money because some businesses get on the rocks, but that's just a weeding-out process."

It was mostly the smaller companies in the group that admitted not being able to get as much money as they wanted, and being pained by the high interest rates. "All we could do was depend on our creditors more than we like to carry us with overdue payments on our bills," said a West Coast manufacturer. But even one or two of the biggest companies in the sampling confessed to dismay over the high cost of borrowing, with one selling debentures at 4% in 1955 and 6% last July.

II. No Time to Wait

Several companies that would not admit tight-money troubles for themselves said they had to share those of their customers. This seems especially true in the textile, construction supplies, appliance, and railroad equipment industries. Sometimes the manufacturer helped the customers with their financing; sometimes he carried the inventory for them or else borrowed to give them more time to pay.

About one out of every four companies expects to pay as much interest on borrowings this year as last, and one out of 10 expects to pay more. Even among the majority of companies that expect rates to drop, some say they can't wait three or four months for the ease to trickle down to them—they have already arranged loans at last year's rate.

On the other hand, some companies are plowing ahead with borrowings for expansion—both for plant and for inventory and receivables—because they see no better time. "We think now is a pretty good time to enlarge," says a farm machinery maker. "All we can see is up," echoes another farm supplier.

Most companies that plan to borrow in 1958 will do it short-term.

III. Close to the Vest

Of the companies queried, some 20% plan to cut budgets for such things as advertising (nearly all of them), research and development (only a handful), and executive pay (less than a third of those planning to cut—though another says this item will "darned well be cut unless business improves").

For different reasons, companies are even busier cutting inventories of:

- The things they make—to avoid the cost of carrying unsold goods.
- The materials they buy—chiefly because they think prices are coming down.

"This is no time to be carrying extra fat, either in inventory or in the budget," one executive said, and he spoke for many.

• **Budget Downs and Ups**—Opposing views of the value of advertising were expressed by a Milwaukee manufacturer who is increasing his ad budget "by a small percentage to make an additional effort to sell" and by the West Coast food company that is cutting advertising by almost 50% "to conserve cash."

A New York State consumer goods maker is cutting advertising "substantially" because "we've come to the conclusion that nothing can pull us up except real hard selling, and that's what we're going to do."

The same company, however, expressed a general view toward the budget for research and development. "I

don't even dare look at the budget I'm building for R&D," said a vice-president, "but it's our best hope for the future." Other companies talked of 30% to 40% boosts in research.

• **Inventories**—Action on inventories appears to be more nearly unanimous—almost everyone is hacking to the bone. Exceptions include the lumber, textile, and oil industries; in these, the maker is stockpiling to get production on an even keel and to enable the customer to buy what he wants when he needs it.

"We'd like to cut inventory but, unfortunately, the market will not allow it," was a typical comment by a Southern textile company.

Companies that don't buy scarce materials and components—and there are few such items these days—are happily slicing to the bone. "Inventory of material is 50% below past levels, and we expect a 25% reduction of work-in-process inventory for the rest of the year," an Eastern manufacturer says. Many talk of a 10% to 25% reduction in materials inventory. One company reports an 85% cut in its stock of metals.

Finished-goods inventory rose "fantastically" in mid-1957, one company says, but was cut to 10% under 1956 by reducing working time.

IV. The Banker's View

Credit demand is slipping at least as fast as interest rates and loan terms, bankers say. Many of them agree with company executives that there never was a credit squeeze.

"Not a single credit-worthy firm in this city failed to get all the money it needed last year," says a Midwest bank president. "Higher interest, yes. But there were a lot of people who tried to come to the trough because business expenses were up and working capital was down. They wanted to borrow money instead of doing a collecting job on receivables and cutting down inventory. We had to put the pinch on them to do some of their own management work instead of going fishing all the time."

• **Matter of Definition**—The definition of "credit-worthy" comes clearer in such remarks of bankers as:

"Any firm that didn't get money last year was either borderline or a new account."

"We still require that a borrower be a customer of the bank, and we are not taking any cold loans from just anyone."

And—rather ominously, "The balance sheet for many a borrower shows a deterioration over the last year to the extent that the customer doesn't show the quality that warrants as low an interest rate as he has been getting. So borrowing won't be easier."

Tax Bill Clears First Hurdle

House O.K.'s changes that would eliminate unintended benefits and hardships. In another arena, Ways & Means is winding up hearings on a general tax revision.

The House of Representatives this week started on the road to Congressional approval "The Technical Amendments Act of 1958," making 81 changes in the tax code, aimed primarily at eliminating unintended benefits and hardships.

It will be one of the few tax bills to get favorable action this session—unless the business turndown prompts a general tax-reduction program. The bill was approved by the Ways & Means Committee last summer after technicians had combed through the tax code in an effort to correct technical errors and inequities stemming from the 1954 Revision Act. The Administration is supporting the bill, and the Senate is expected to give favorable action later.

• **General Tax Revision**—As the House was voting on the measure Tuesday, the Ways & Means Committee was winding up hearings on general tax revision. It has been holding hearings for three weeks on a wide range of proposals—from rate reductions and increased allowances for dependents, to special treatment for a variety of special groups. Chmn. Wilbur Mills (D-Ark.) plans to turn these recommendations over to his own technicians and Treasury experts to draft legislative proposals.

Mills plans to hold further hearings in March or April on legislation based on these proposals. However, he doesn't plan to rush a bill through Congress. He would give the Federal Reserve Board and the Treasury a chance to needle the economy through application of monetary policy. However, if there is not a clear indication of a shift in the economic outlook for the better by July, Mills is almost sure to press for a general tax cut.

Also, some time before the end of the fiscal year on June 30, Congress will be asked to extend for another year the corporate tax rate at 52% and the excise taxes imposed by the Korean War. Congress will go along.

• **Major Provisions**—The technical bill voted this week is expected to lose a little more revenue than it picks up in the first year or so, but Treasury experts say the amount is small. And they say on the long-term outlook that at least one-third of the 81 provisions will result in increased revenue, while less than one-sixth of the provisions are expected to result in loss of revenue.

Here are some of the major provisions of the bill as passed this week by the house.

• **Insurance**: As drafted, the bill intended to toughen the tax treatment of people who try to avoid the estate tax on insurance by giving up ownership of policies, even though they continue to pay the premium. But an amendment, offered on the floor by the committee, temporarily deleted this provision, leaving present law in effect. The provision was knocked out because Treasury wasn't satisfied with the language; before the bill gets to the Senate the staffs will try for another version.

• **Partnerships**: The bill repeals a provision that permitted certain partnerships and proprietorships under the 1954 tax law to be taxed as corporations—such companies with 50 or fewer members. The House thus took away the alternative of partners to use the corporate tax rate—a ceiling of 52%—instead of the personal income tax if the partners could gain by it.

• **Stock Purchases**: The provision seeks to close a "loophole" under which corporations bought stocks around dividend dates. The 85% tax exemption that corporations now get on dividends from other companies would be denied if the stock is sold immediately after the dividend date.

• **Annuities**: This language limits the right of unions, trade associations, colleges, and other groups to pay employees largely through annuities. Under present law, colleges and other tax-exempt educational, religious, and charitable institutions can buy annuity contracts for employees, who pay no tax until they retire and begin getting payments. The bill provides that tax deferment would be permitted on some annuities bought by these groups, but any excess over a specified amount would be taxed to the employee in the year the annuity is bought. A much tougher rule would be applied to labor unions, trade associations, farm cooperatives, social clubs. The provision is aimed at discouraging them from giving employees forfeitable annuities, in which the employee doesn't get a vested right until he has worked a number of years.

• **Leases**: The bill tightens the tax treatment of improvements on property subject to renewable leases. Taxpayers now generally are required to spread the cost of a building or other property over its useful life. However, taxpayers putting up buildings or other improvements on leased property can amortize the cost over the life of the lease. Often

these leases are of short duration, although they are renewable at the option of the lessee. The bill provides for amortizing the cost over the life of the improvement unless the lessee can prove that he won't renew the lease.

• **Foundation:** The bill opens to the public information filed by foundations, unions, farm organizations, chambers of commerce, and other business, educational, charitable, and religious groups to obtain tax exemptions. These groups would be required to add to their annual "information return" a report on yearly contributions and gifts received.

• **Foreign Tax Credits:** The measure permits a two-year carryback and a carry-forward of any unused foreign tax credit. This provision is opposed by the Treasury Dept. Further, the bill requires even those taxpayers who are abroad for 17 out of 18 consecutive months to report their income to the government, even though they need pay no tax up to $20,000 a year.

• **Double Deductions:** The bill would prevent a taxpayer from receiving a charitable deduction and an interest deduction on the same amount of money, such as borrowing money to buy a bond, then giving the bond to charity and taking a deduction both on the donation and on the interest paid on the loan.

Mixing Soviets and Americans

Cultural exchange agreement is signed and sealed—but the actual mixing process raises some tough technical, political, and human relations problems for the State Dept.

The State Dept. this week got down in black and white, with signatures affixed, the first agreement the U.S. and the Soviet Union have concluded since the signing of the Austrian Treaty three years ago. It calls for a fivefold increase in scientific, technical, educational, cultural, sports, and radio-TV exchanges between the two countries.

But if the State Dept. had its troubles in working out the terms of the agreement in three months of lengthy negotiation, its real difficulties in carrying out the planned exchanges are still ahead. On the Soviet side, it's all fairly simple—the Kremlin will decide just how far to go and what to do in each area of exchange, and the Russians will do it. The State Dept. will have to deal not only with new technical problems involved, but with the conflicting views of a host of U.S. telecasters, broadcasters, scientists, educators, and sports stars.

• **Wide Coverage**—A brief rundown of the agreement's provisions gives an idea of what the State Dept. is up against. It calls for exchanging nearly two score delegations of various kinds from each side—a total of some 500 Americans and roughly the same number of Russians. In tourism, it means perhaps 2,500 U.S. tourists in Russia and perhaps as many as 1,000 Russians here this year, with more later.

This will mark the first time—if the agreement works as expected—that large numbers of Russians visit the U.S. in a non-official capacity. Beyond that, Russian-American cultural contact will be extended into several new fields with potentially important political implications. These include limited reciprocal exchange of radio and TV broadcasts, on political as well as general subjects—exchange of motion picture films of all kinds—exchanges of professors and students—organized individual and group exchanges in sports and the arts—exchanges of exhibits and publications.

• **New Problems**—All of these undertakings will involve breaking new ground. Technical tangles are inevitable—from language and translation problems to how to finance tours of high-priced U.S. artists in proletarian Russia, and how to persuade prestige-conscious universities to welcome less than top-drawer professors.

The political questions in connection with the exchange of radio and TV broadcasts and films are even more intriguing.

• **Politics on the Air**—What kinds of broadcasts on political subjects should the State Dept. offer the Russians, for example? Officials are thinking in two basic directions. Certain regular commercial TV and radio shows on current events, like See It Now and Meet the Press, might be acceptable. They also hope it may be possible to produce a limited number of shows specially aimed at the Russian audiences.

Some officials feel any such shows should be handled by some top-flight private producer, with the U.S. government playing only an advisory role, to avoid the deadening taint of official propaganda. This would be in line with the State Dept.'s objective of encouraging as much private initiative as possible in the exchange program.

But what "political problems" will the Soviets permit to be discussed over their airwaves? This clearly will have to be discovered by trial and error. Some in Washington think Moscow might permit a discussion of disarmament or space control but rule out the unification of Germany. Would the Russians O.K. an objective discussion of the purposes of NATO, one of their favorite propaganda whipping boys? Should we get into such subjects as our race and labor relations?

• **Peddling Russian Shows**—On our side, what kinds of broadcasts should the State Dept. agree to try to peddle to the networks and local stations for U.S. distribution. Most standard Soviet telecasts and radio broadcasts are so heavily smeared with propaganda that they have low entertainment value. Once the first bloom of curiosity is off, U.S. networks and even local stations are likely to balk, and the State Dept.—unlike the Kremlin—has no power to compel showings.

Some officials speculate, however, that the Russians probably will concoct some specially palatable shows for the American market.

• **What Films?**—Some tough problems will come up over films, too. State's view is that if there were an unlimited exchange of movies both ways it would be quite willing to let any and all U.S. films be shown in Russia. But since only a limited number can be shown it doesn't want them to portray only the seamy side of American life.

The trouble is that in a democracy many serious movies dealing with the contemporary scene naturally tend to take a critical view. In practice, that may limit the selection of films to be offered the Russians pretty well to historical movies, musical comedies, and local color films. Officially the selection will be left up to representatives of the movie industry approved by State, but in practice State will have the controlling voice.

• **Unsettled**—Despite the wide-ranging character of the agreement, U.S. officials hope it is just a first step. They concede that it falls far short of all the U.S. objectives.

Soviet Ambassador Georgi Zaroubin refused to end Soviet jamming of American broadcasts or lift the ban on free travel within the Soviet Union. He insisted on a built-in veto right on broadcasts and films. Restrictions on U.S. correspondents and businessmen in Russia, the question of the often proposed U.S. trade fair in Moscow, and a number of other matters still remain.

From our side, Special Ambassador William S. B. Lacy made it clear that the retaliatory U.S. restrictions on Russian freedom of travel here will be maintained until the Soviets scrap their travel curbs.

Lacy agreed in principle to establish direct air flights. In practice, the U.S. is likely to stall until it sees how well the Russians carry out the other parts of the exchange program.

In Business

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Airlines Snort at CAB's 6.6% Fare Boost But Most Indicate They'll Accept It

The nation's 12 domestic airlines this week glared unhappily at the CAB's offer of a temporary 6.6% fare boost. But most of them indicated realistically that they would accept it, though the Air Transport Assn. muttered "too little and, perhaps, too late."

Five of the airlines had earlier sought increases ranging from 12% to 15%. What the CAB finally offered was a flat 4% rise in all fares, plus an extra $1 on each ticket. This averages 6.6%, though it would amount to more for short hauls.

The increases would be effective only until completion of the investigation of the whole passenger fare structure. If all the airlines ask for the raise, tariff schedules can be ready for use within 24 hours. But if even one sits it out, revisions will be required in the conversion tables that would take three to four weeks to prepare.

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Thiokol, Reaction Motors to Merge In Latest Missile Consolidation

Thiokol Chemical Corp. and **Reaction Motors, Inc.,** have joined the wedding march in the missile industry (BW–Jan.18'58,p36). The companies have agreed to merge, with RMI stockholders receiving one share of new Thiokol stock for each 1¼ shares they hold. Stockholder approval is needed for the deal.

If the O.K. comes through, the resulting company will be one of the strongest in the spreading field of rocket propellants. Thiokol is already top dog in the manufacture of engines using solid fuels. RMI—which is half owned by **Olin Mathieson**—specializes in engines using liquid propellants.

Meanwhile, the boards of both companies have approved the merger of San Diego's **Solar Aircraft Co.,** maker of heat-resistant jet engines and missile parts, and **Norden-Ketay Corp.,** Stamford (Conn.) electronics outfit.

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Are Oil Allowables Both a Floor And a Ceiling? Courts Will Decide

For the first time, a state regulatory agency is trying to enforce the principle that oil allowables are a minimum as well as a maximum.

The test pits the Oklahoma Corporation Commission against Gulf Oil Corp. The ruckus began when the commission ruled that oil companies must buy the full amount of crude specified in the monthly allowable, which is determined by (1) conservation policies, (2) an estimate of the over-all market, and (3) the companies' own forecasts of how much they will want to buy in the month ahead.

In the past, the resulting figure has been interpreted simply as the most a purchaser could obtain.

Itching for a court test of whether this was also the least it could buy, Gulf deliberately violated the new edict, without taking advantage of machinery for granting exceptions. So the commission held Gulf in contempt and fined it $305,000 for allegedly taking only 80% of its allowable last August and September. The company says it will appeal to the Oklahoma Supreme Court and, if necessary, to the U.S. Supreme Court, on constitutional grounds.

It's likely that the commission's order stemmed, at least in part, from pressure by independent oil producers, who have been complaining more and more noisily about the volume of foreign crude the major companies are importing.

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Capital Airlines Buys Convair Jets With a Financing Boost From the Seller

Capital Airlines this week arranged to buy a batch of jet planes from General Dynamics, and at the same time eased several major problems. **General Dynamics will not only finance its sale of 15 Convair 880 passenger jets, but will also sponsor Capital's refinancing of $48.5-million that it owes Vickers-Armstrongs, Ltd., on 60 Viscounts bought in 1955. Advantages for Capital:**

- Refinancing will ease the terms and 6¼% interest on the Viscount debt, originally due between 1960-1962.
- Having the long-haul Convairs gives Capital leverage in seeking CAB approval of routes between the Great Lakes and Miami. If the routes were granted before 1960, Convair would provide piston planes on lease.
- With the new routes, Capital could use its Convairs for the long hauls and put the Viscounts on the short hauls for which they are more efficient than present equipment.

For General Dynamics, the sale brings orders for Convair 880s to a much healthier level.

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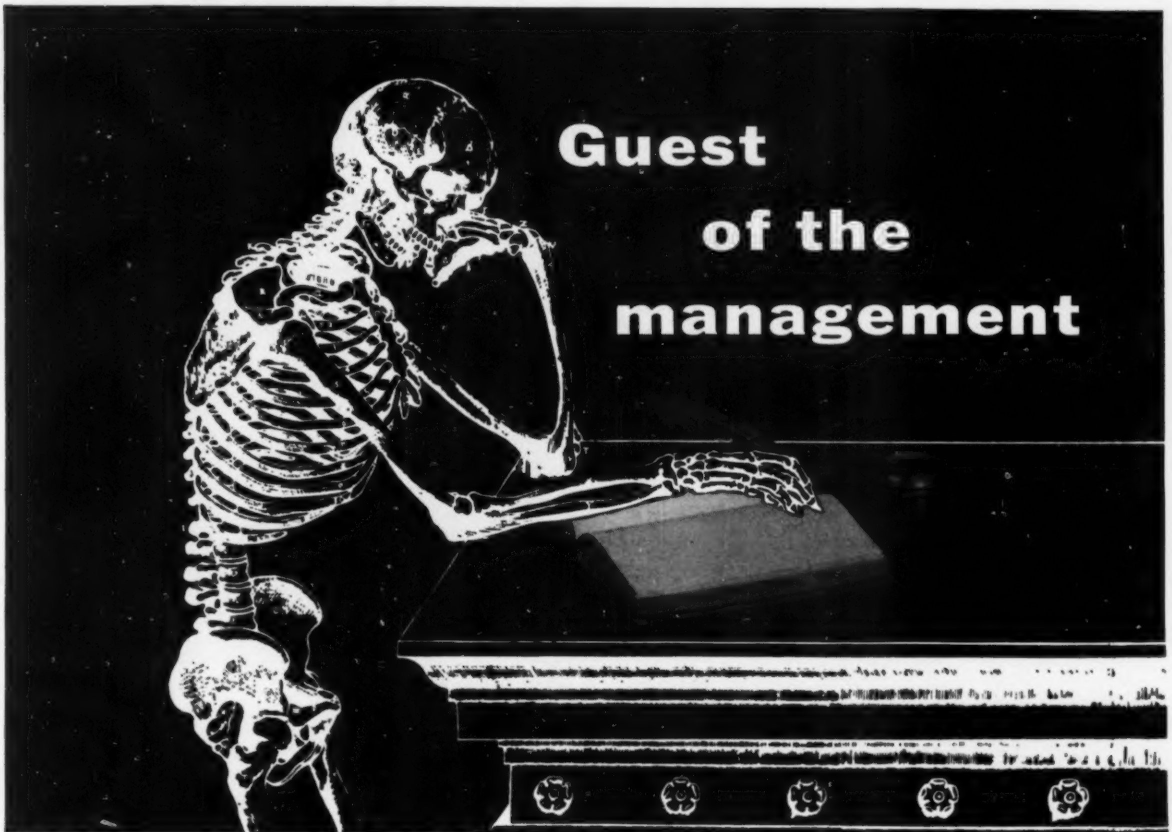
Business Briefs

Los Angeles Superior Court last week threw the iron ball at H. J. "He's the Greatest" Caruso, **auto dealer who had pleaded guilty to two grand theft and two forgery charges** in a 44-count indictment arising from his high-flying sales methods (BW–Oct.12'57,p65). The sentence, in effect, puts Caruso in jail for a year and—harsher still—exiles him from the auto business for 10 years. It's a near-record sentence for a first offender.

The government-backed $3-billion, 15-year replacement program for dry cargo ships got under way this week when **Lykes Bros. Steamship Co.** placed a 48.1-million contract for five high-speed ships with **Ingalls Shipbuilding Corp.** The government will pay about 45% of the cost of each ship in the program.



Guest of the management

Hospitality can be overdone.

Throughout the country, many companies are unwittingly playing host to various skeletons from their closets.

More often than not, one of the non-paying guests is Obsolescence. He makes himself right at home, in the midst of machines that are still useful but are *not* still profitable. Once entrenched, he can do a lot of damage.

We'd like to help you get rid of him.

Let us study your needs, so that we can suggest a sound, practical replacement program.

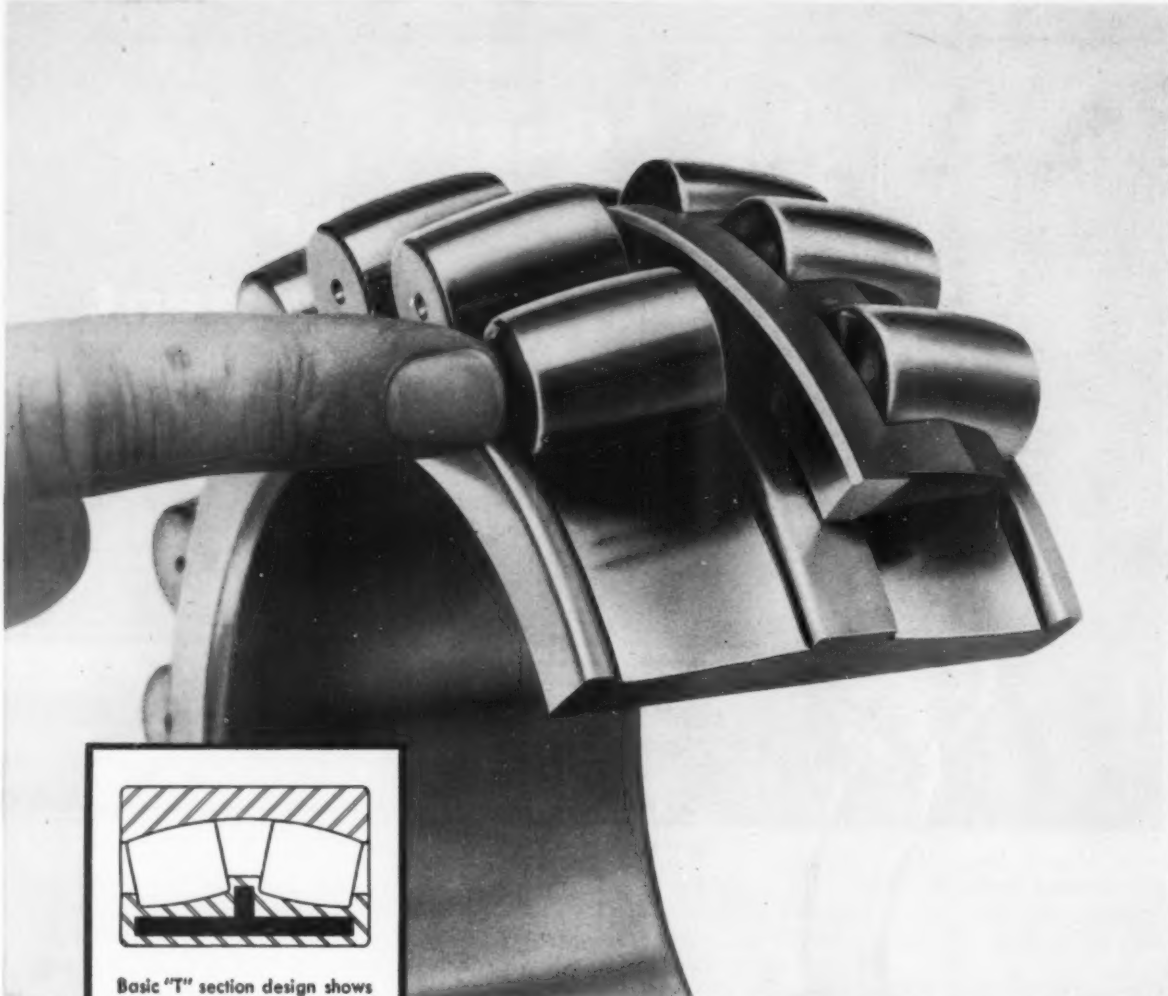
No other machine tool builder in the world can equal Jones & Lamson's 123 years of industry-wide experience in lowering costs and increasing profitability with advanced metal working equipment.

We offer a variety of financing plans.

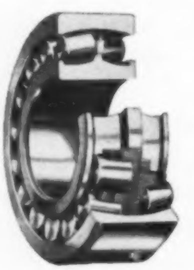
the man who needs
a new machine tool
is already paying for it

JONES & LAMSON MACHINE COMPANY · SPRINGFIELD, VERMONT

Turret Lathes • Fay Automatic Lathes • Precision Boring Machines • Thread & Form Grinders • Optical Comparators • Thread Tools



Basic "T" section design shows "backbone" construction that insures positive roller guidance and stability without skewing under all load conditions.



For roller stability...

there's nothing like "the bearing with the backbone"

The only *positive* way to guide rollers is by an integral center guide flange—backbone of the *Torrington* Spherical Roller Bearing. No floating ring can match it for stability under heavy radial and thrust loads.

This "bearing with the backbone" insures true rolling motion . . . prevents stress concentration . . . means minimum friction. It makes possible open-end cage design, too, with no shrouds to impede circulation of lubricant to bearing contact surfaces. There is less heating and more positive lubrication.

The integral center guide flange is adapted from the same principle used in the design of Torrington Tapered Roller Bearings. This refinement is typical of Torrington's uncompromising engineering that assures you the ultimate in bearing performance. **The Torrington Company, South Bend 21, Ind.—and Torrington, Conn.**

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WASHINGTON OUTLOOK

WASHINGTON
BUREAU
FEB. 1, 1958

A BUSINESS WEEK
SERVICE

You can expect major revisions in Eisenhower's 1959 budget.

White House advisers insist that the figures given Congress a couple of weeks ago still stand. But more and more questions are being raised, not by Eisenhower's "team," but by competent people in government who have access to the same information used by the so-called "insiders." These sources speculate that the budget's impact on business may well turn out to be much greater than expected.

Take a look at the reasoning, bearing in mind that these officials don't make policy, but are in a position to know what is going on.

Figuring is that spending estimates are too low. Eisenhower forecast an outlay of $74-billion, up $1.2-billion from the current year. Second guessers say the rise may well be $3-billion to $4-billion.

Revenue estimates will prove to be too high, as these sources see it. Their contention is that the budget was too optimistic on the business trend. The budget assumed only a slight and short-lived business drop. But already, the skeptics point out, unemployment is on the rise; and they expect lower profits this year than last.

This brings up the question of the deficit's size. Eisenhower accepted the prospect that this fiscal year, which ends June 30, will show red ink. He figured it at about $400-million, and then forecast a surplus of some $500-million for fiscal 1959. Any businessman who makes up a budget knows that this is very close figuring.

Then there's the matter of a tax cut. Both the Administration and Congressional Democrats agree that if the recession is prolonged, then a cut in individual income taxes would be a useful stimulant. Treasury Secy. Anderson has said we might have to resort to a cut, if the downturn lengthens or deepens. Congress talks of a 10% cut—upwards of $4-billion. If corporations are helped, the cut could exceed $5-billion.

But now look at the prospective deficit, if things don't work out as the Administration plans. The figures are shocking.

Speculation runs to $6-billion to $8-billion. But all you need to get the figure up this high is a small miscalculation on the budget, plus an election-year tax cut. Start with the budget. If spending is underestimated by as little as 3%, that gives you an increase in excess of $2-billion. If receipts are overestimated by the same margin, that gives you a cut of over $2-billion; then, if taxes should be cut in any meaningful way, there's another loss of $4-billion plus. The combination runs into real big money.

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What is the White House stand on all this? No one knows. Conferences between the President and the press have been few since the Eisenhower illness of last fall. But Eisenhower has said that he would prefer deficits to a balanced budget if that's necessary to stimulate the economy. Washington observers interpret this to mean that Eisenhower, while dedicated to protecting the buying power of the dollar, prefers inflation to deflation. Any politician, skilled or unskilled, would take the same stand.

Note Anderson's position on the debt ceiling. The Treasury Secretary insists that an increase from $275-billion to $280-billion is essential. He wants no part of the proposed $3-billion compromise increase backed by

WASHINGTON
BUREAU
FEB. 1, 1958

Sen. Byrd of Virginia. Observers say that if Eisenhower's budget is correct, then a less-than-\$5-billion hike in the ceiling should be enough to make the Treasury comfortable on its borrowings during periods when revenues are slow coming in.

The fact that the Administration is fighting for a \$5-billion rise is interpreted as meaning that even the Treasury doesn't believe the fiscal 1959 budget figures.

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Resistance to freer trade is on the rise. You will see this as the session goes on into the year.

Authority to cut tariffs will run into more trouble. Congress will vote a renewal of the trade agreements act, but it won't be for the five years Eisenhower wants. Furthermore, Eisenhower will have to compromise. The oil and minerals bloc is getting new backing for quotas.

The Buy American clause will stay. It may well be toughened. This is the policy that gives domestic producers an advantage over foreign firms in bidding on U. S. government contracts. You see it most in electric power equipment. But other industries have a real stake.

As for foreign aid, Eisenhower has a real big selling job to do. He has staked out what he wants—some \$4-billion, which is just about what he had this year. But members of Congress, both Republicans and Democrats, are leaning toward taking away foreign aid money to pay for more missiles, and even domestic civilian projects. The opposition will show up in the committees that approve appropriations. Here is what's in the wind: spending will be cut, and it will become more difficult for foreign countries to qualify for aid.

Enthusiasts are disappointed in Eisenhower's education program.

Advocates of school construction aid haven't given up. They like the idea of scholarships to promote scientific study. But they still would like to see federal funds for both buildings and teachers' pay.

The most to expect is some sort of scholarship plan. But there is no certainty that Congress will do anything. All sides are divided.

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Labor legislation will be limited. There's strong support for what Eisenhower asked—laws that would put the unions in a goldfish bowl.

But politics will take over. Union and management are far apart on who should disclose what. It's an election year, and this will be a major influence on how representatives and senators vote.

You might get a law on publicity for welfare funds. Unions and management would be required to account for their handling of this money.

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Washington will stay clear of price-setting. UAW's Walter Reuther got some measure of attention from Congress when he proposed that big companies be required to explain their price plans. He won't get legislation. But this is something to watch. If business ever turns really sick, then there will be an all-out drive for something like the old NRA, which would give Washington a big voice in wages, prices, and production.

Copper . . . an old friend with a bright future

First metal worked by man has expanding role in modern world

As the best commercial conductor of electricity, copper is indispensable today. Last year, 3 billion pounds, almost 18 pounds per person, were used in this country. An estimated 250 million pounds went into automobiles, 125 million into air-conditioning and refrigeration machinery, 125 million into radio and television sets, and millions more into generation and distribution of electricity and into construction.

These amounts should increase as population grows, and industrialization spreads. And research into new uses, in high-voltage transmission, electronics, and building, is adding to demand.

Fortunately, copper has kept an eye cocked on the future. Its geologists have searched out ample reserves. But copper miners often must build railroads, highways, power plants, and harbors—often entire towns—before they can start work. Then they must handle more pounds of rock to produce a pound of copper than producers of any other major base metal. The ratio can run above 400 to 1. So copper production takes time and money—lots of it!

Ever since the Bank was founded in 1812, copper men have been coming to First National City. Here they find *bankers* thoroughly versed in the problems of copper and equipped to offer sound financial counsel as well as credit.

The only American bank with branches in Chile and Peru, First National City provides complete "on-the-spot" banking services in these principal overseas sources of American copper. The Bank's 69 other Overseas Branches, Offices, and Affiliates and its 78 Offices in Greater New York also are highly useful in developing new markets and sources of supply.

You are invited to find out how First National City *bankers* and branches can help solve your financial problems.

The **FIRST**
NATIONAL CITY BANK
of New York
First in World Wide Banking
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First National City Travelers Checks

Convenient . . . safe . . spendable anywhere. Prompt refund if lost or stolen. Buy them at your bank.


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Why the Consumer Is Losing

REASON ONE The consumer has had a decade since the end of World War II to load himself up with equipment. By now, he's got most of what he wants — and may even be getting bored with whole chrome-plated era

REASON TWO He's just entering a period when more and more growing kids at the expensive ages are taking more and more of the family budget just eating and dressing and studying . . . and growing

1. Between now and 1965, the biggest increases in population will be among older children . . .

Percent Increase	1940-47	1947-50	1950-56	1956-60	1960-65	1965-70
Under 5 Years	*+36.2	+13.3	+14.5	+ 4.1	+ 5.0	+13.2
5 — 14 Years	— 0.5	+ 9.8	+30.0	+14.4	+ 8.4	+ 5.2
15 — 19 Years	— 8.4	— 5.6	+ 6.9	+17.2	+28.5	+11.4
20 — 49 Years	+ 7.8	+ 2.3	+ 2.8	+ 1.3	+ 3.2	+ 8.1
50 Years and Over	+17.5	+ 7.2	+12.2	+ 8.1	+ 9.5	+ 7.8
Total	+ 9.1	+ 5.2	+10.8	+ 6.7	+ 7.8	+ 8.3

*The War Time Baby Wave

2. . . . by then children in the expensive ages of 5 to 19 will account for close to 30% of all people

Percent of Total Population in Each Age Group —	1940	1947	1950	1956	1960	1965	1970
Under 5	8.0	10.0	10.8	11.1	10.8	10.6	11.0
5 — 19 Years	26.3	23.3	23.1	25.7	27.8	29.3	29.0
20 — 49 Years	45.3	44.7	43.7	40.5	38.4	36.8	36.8
50 Years and Over	20.4	22.0	22.4	22.7	23.0	23.3	23.2

His Enthusiasm for Goods

IT'S CLEAR now from business statistics that the U.S. economy is going through its third decline since the end of World War II. But one symptom of this sag—flabbiness in consumer demand—began to show up as long ago as mid-1956, in the University of Michigan consumer attitude studies (BW—Oct.13'56,p171).

Since then, retail sales have failed to register the year-to-year gains we've come to expect. Demand for new autos has disappointed Detroit. People seem to be spending more of their money on necessities such as clothes and services.

• **Deep Shift**—Many predict this recession will be short-lived, like those in 1948-49 and 1953-54. But a good case can be made that something more fundamental is occurring—changes in consumer demand foreshadowing major problems for U.S. industry over a much longer pull.

You can reach this conclusion by at least two routes:

- A graphic look at changes in the population and what—if anything—they portend for spending habits.
- The far more subtle, controversial, and intuitive approach—a sociological examination of what may well be changing impulses and values of the people making up that population.

Both routes can be rewarding; both raise the challenging possibility that the U.S. is moving from a decade of unbridled consumption—of almost any kind of goods—into a period of economic satiation, or at least of significant changes in demand for goods. For some industries, this might last perhaps until 1965.

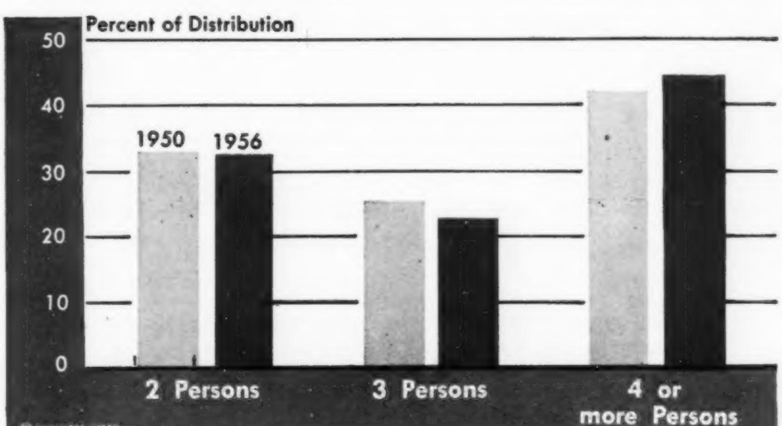
I. Changing Population

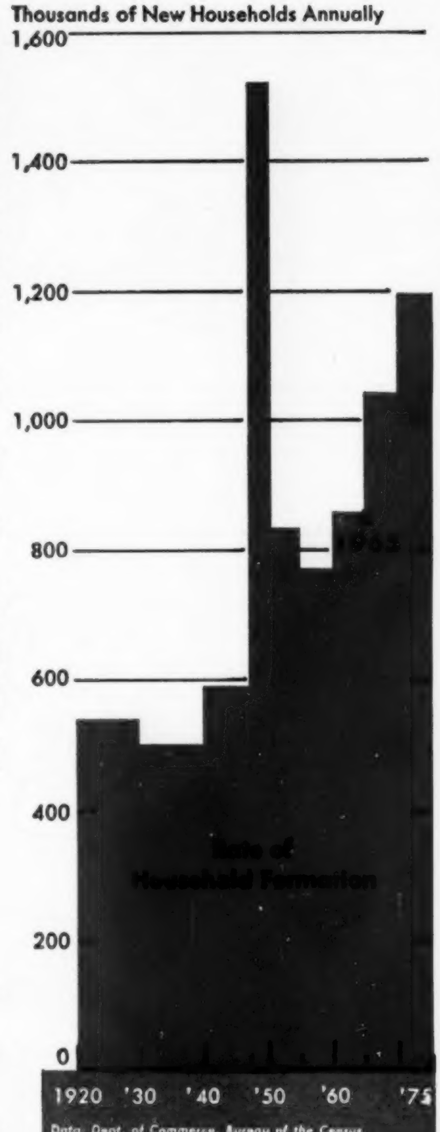
From now until 1965, the population will grow from about 172-million to 193-million. At first blush, it seems hardly likely that this burgeoning populace can produce anything but more and more demand. But if you analyze the tables on these pages, a disturbing pattern emerges. These tables are a statistical profile of U.S. population between now and 1970. Two factors particularly affect the picture: (1) the slump in births in the 1930s and (2) the explosive increase that stemmed from wartime and postwar babies. The figures add up this way:

- Until the mid-1950s, the number of babies under five years old was growing by far the most rapidly.
- This coincided, naturally, with the spurt in new household formations, which peaked in 1950.
- From now until about 1965, older children will dominate changes in population characteristics.
- More families—each with more children, on the average—will be farther along in the life cycle.
- New household formations can't be expected even to match the rate of the late 1940s and early 1950s again until 1965 or after.

Thus, the basic fact is this: more people and more families, but families—

3. And more parents will have a lot more kids. Even now there are more large families than in 1950





4. What's more, it will be well into the 1960s before new young families are increasing sharply

1.

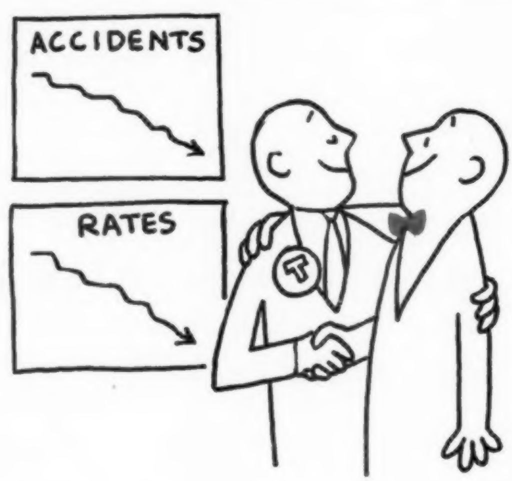
J. B. was a puzzled man—and had a right to be.
His firm had loads of workmen's comp and liability.
And yet his rate of accidents climbed up—it fairly soared—
Insurance costs went far beyond what he could well afford.

2.

So J. B. called a Travelers man, who said, "Your wisest course
Is calling up *our* firm—we stop your trouble at its source.
Our Travelers safety engineers will help eliminate
Unsafe machines and methods to improve your safety rate."

3.

"Our handy claim locations—all two-hundred-fifty-one—
Assure you speedy service; we can get there on the run."
So J. B. took The Travelers plan, his buy was most astute;
Now all his men are safer and his rates are low to boot.



4.

If you'd like *your* insurance to start working right away
Just call your friendly Travelers man—why put it off a day?
He'll build a business program that will fit you to a "T"—
He'll help you make that safer plant an actuality.

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and perhaps people—of significantly different characteristics.

• **Changing Purchases**—What this can mean is obvious: an important change in buying habits. Some economists and sociologists have already hoisted warning signals, lest business base its plans on an unsophisticated analysis of the situation.

It may be, they say, that the U.S. is shifting from a hearty durable goods economy, with all the multiplier effects this has on basic industries, to one emphasizing demand for softgoods and services. Such a change would have over-all economic repercussions far beyond its direct impact on hardgoods lines such as appliances and autos.

As Martin Gainsbrugh, chief economist for the National Industrial Conference Board, has put it: "Rebudgeted consumer demand in the second postwar decade may not mesh so neatly with existing production capacity as it has in the past."

". . . the consumer has been living amid plenty. Has he reached a point of satiation?"

II. Changing Family Budgets

By 1956, there already were signs that families had begun the shift foreseen by some cautious prophets. Softgoods sales had consistently trailed hardgoods—and even lost ground, in absolute terms. But they began to move upward, while hardgoods went through two years of brisk and growing competition. A steadily increasing share of personal income began going to services.

Dept. of Agriculture statisticians, using figures from the 1950 census, discovered these trends in a projection of consumer spending for 1956:

• The average family was spending significantly more on food and housing than it was in 1950.

• On the other hand, its budget called for less on furniture, household equipment, and automobiles.

• **Older Families**—The change so far may not seem great. But it showed up just when older children were becoming a more important part of the population. And it establishes the basis of a trend that can easily accelerate, if you accept the conclusions taken from population shifts.

Generally, the studies of how people spend their money agree that older families—with household heads 40 and above and with older children—spend less on capital consumer goods. Life magazine's Study of Consumer Expenditures (BW—Sep.28'57,p73), for example, shows that spending on home appliances declined sharply in 1956 among families with older children, compared to younger families. Per family, they put somewhat more of their cash into autos than younger households, but almost half of total auto sales were still to families with younger children.

The Agriculture Dept. says flatly its surveys show that "families tend to get [large household purchases] early in the family life cycle."

If these patterns hold true, then it isn't difficult to understand why the durable goods industries have shown signs of weakening. As children get older, they impose new demands on the family budget—for more expensive clothes, education, and recreation—and less is left for hardgoods.

III. Changing Consumer

None of this is a built-in basis for an over-all decline in consumer spending. Some things—food, clothing, recreation—will, in fact, feed on the new character of the population. In other fields, there will be a steady increase in total demand, but the steep rises of the past may be delayed at least until the older children now growing up begin to form their own families.

Still, some sociologists and economists are wondering whether something more profound isn't going on. They look on this mainly as a change in the U.S. consumer's outlook. Maybe, they imply, people feel that consumption isn't so important any more.

• **Scholarly View**—In effect, this was the burden of several of the papers presented to the Committee for Economic Development on problems facing the U.S. (BW—Dec.28'57,p28). They included observations such as these:

• "The need for broadly distributed additions to private consumption is now far less urgent than it used to be"—Dr. Moses Abramovitz, Stanford University.

• "It may be that the economic struggle, which we have been accustomed to regard as the central feature of the human situation, may in the long run of history prove to have been a transitional episode"—Prof. Roy F. Harrod, Oxford University.

• ". . . I suggest that there is a tendency for people, once they are accustomed to upper-middle-class norms, to lose zest for bounteous spending on consumer goods"—Prof. David Riesman, University of Chicago.

The argument runs like this. For a long time, the consumer had to do without material goods that made life easier. Sometime in the 1920s, the industrial revolution reached a stage in this country where industry could make those goods available—something never before true. But the U.S. was unable to realize this high-consumption economy, first because of the Great Depression (caused, argue some economists, by the fact that we hadn't yet learned to live with such an economy), and then because of World War II.

It wasn't until after the war that redistribution of income became real in terms of goods. At that point, the consumer went on a buying spree, and many thought there was going to be an insatiable demand for ever more and better goods.

• **Contented Class**—Now, for the first time in history, an industrial economy has reached a point where goods have become less important. The great bulk of the population has been fed, clothed, housed, and equipped. And by now, the diffusion of material wealth is undermining the effectiveness of more goods.

In other words, an entire economy may have contracted what might be

called Veblen's disease. It was Thorstein Veblen who observed that a nouveau riche class moves from conspicuous consumption to conspicuous underconsumption. A vulgar display of material wealth becomes taboo. Today, the consumer has been living for several years amid plenty. Has he reached a point of satiation?

Riesman suggested this as a possibility as long ago as 1953: "It has . . . been the bounteousness of modern industry . . . which has done more than almost anything else to make conspicuous consumption obsolete here. It would go much too far to say that consumption bores us, but it no longer has the old self-evident quality . . ."

Whether or not this is widely true—or becoming so—it is certainly true that the consumer has accumulated a lot of goods in the past decade, some brand-new in meeting his needs, some old but better.

• **Effect on Industry**—From industry itself, you can hear faint echoes of the thesis that the consumer is satiated.

In introducing a new refrigerator model this year, Judson S. Sayre, president of the Norge Div. of Borg-Warner Corp., made a comment of a sort growing more common in the durable goods trade. After blaming the appliance industry for building "monuments to futility," he added: "Customers are moving sideways to spend their money in other directions."

The auto industry is befuddled by the reception accorded foreign cars, whose designs change but slightly from year to year, at a time when total sales are off.

A market researcher for a big consumer goods company explains what he fears is happening in hardgoods: "You have to get one to find out it isn't worth having." And an auto man remarked: "I have been worrying what Detroit is going to do . . . if the Ivy League and sack dress passions ever slop over into taste for sheet metal."

• **New Approaches Wanted**—It is doubtful whether industry will agree now that the consumer has become disenchanted by gadgets. But some will conclude that it takes more than added chrome and a huge advertising campaign to whet his appetite. They think it will take brand-new products, geared to the changing consumer market. One solution they see is serving special segments of the mass market now big enough for individual attention.

Says one marketer: "Twenty-five years ago it was a problem of standardizing products to get a reasonable production cost. Now we have to fragmentize the market—not kid people in the mass that what advertising says everybody needs, they need. We've entered a period of the specialized mass market." END

In Marketing

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Trading Stamps Move Up a Notch As Norge Offers Them to Dealers

If trading stamps step up consumer purchases, why not dealer purchases? That's the thinking of Norge Div. of Borg-Warner Corp., which, like many other concerns, is back at the hard sell.

Norge said this week it has set up a Cinderella Treasure Chest stamp plan, which allows Norge distributors to issue trading stamps on 1958 refrigerators purchased by dealers.

To get one stamp, a dealer must buy three top-of-the-line or seven lower-priced refrigerators. When he has 40 stamps, he has a bookful. One book will bring him a 53-piece china dinnerware service. The dealer who fills 90 stamp books gets the top redemption value: a 14-day tour of Europe.

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Anheuser-Busch Claims '57 Beer Crown, But Schlitz Insists It's Still King

Bets on who won the 1957 beer race are wide open. **Anheuser-Busch is claiming the victory.** The St. Louis brewer says its shipments of 6,115,762 bbl. stole the crown from Joseph Schlitz Brewing Co., of Milwaukee, which has been titleholder since 1955 (BW–Jan.4'58, p83).

Erwin C. Uihlein, president of Schlitz, isn't citing figures at this point. **But he says Schlitz "maintained its position as the world's best seller by a wide margin."** He puts Schlitz sales at "more than 6-million bbl.," insists the final figures will give Schlitz perhaps a 500,000-bbl. lead over its nearest competitor.

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Carpet Industry Waits for Tariff Aid And Shaves Prices on Some Wool Lines

The carpet industry took two steps to meet competitive pressures last week, on the domestic and foreign fronts.

- The Carpet Institute put in a plea to the U.S. Tariff Commission to set a 5% quota limit on imports of Wilton and velvet carpets and rugs.
- The big domestic producers shaved prices a bit on some of their wool lines.

James Lees & Sons Co. made the first price cut, averaging less than 3%. It said the cuts reflected a drop of about 17% in the price of wool from its 1957 peak. Bigelow Rugs & Carpets and Mohasco Industries (Mohawk and Alexander Smith) followed with small cuts on selected wool lines. But they followed unhappily; nothing in the industry picture–except the competition–justified the cuts, they said.

Tufted carpet has been stealing the show from the woven lines (BW–Dec.14'57,p172). Price cuts of the amount made last week are too small to make any substantial sales boost, but they do at least indicate that wool carpet is not heading upward.

On the import front, domestic producers of woven wool carpet are no happier. The Carpet Institute's plea reports that tariffs on Wilton and velvet weaves dropped from 40% in 1939 to 22.5% last year, with a drop to 21% due next June. Imports of machine-made wool carpets and rugs came to 7.7% of production for the first eight months of 1957, against 1.3% in 1939. Wiltons have been especially hit. In 1939, imports of Wiltons were 108,000 sq. yd. of Wiltons; in 1956, they were nearly 2.1-million sq. yd. This gave imported Wiltons 16% of domestic production.

• • •

High Court Upholds Oil Supplier's Right To Cut Prices to Meet Competition

The Supreme Court this week wrote an end to over 17 years of litigation between Standard Oil Co. (Ind.) and the Federal Trade Commission in the famous "Detroit" case.

In a 5-4 ruling, the court upheld the "good faith" of Standard's pricing practices against charges of illegal price discrimination brought by FTC in 1940. **The ruling is likely to lead to a new drive by proponents of small business to amend the Robinson-Patman Act to limit the use of the "good faith" defense in future cases.**

The case started with FTC charges that Standard was selling gasoline to four favored dealers (three also sold at wholesale) at prices lower than prices charged to other retailers. In 1951, the Supreme Court upset FTC's order against such pricing, ruling that "good faith" meeting of competition was a complete defense against a charge of illegal price discrimination.

FTC then ruled Standard had not acted in good faith, but had used discriminatory pricing favoring large retailers. A court of appeals found no basis for this charge.

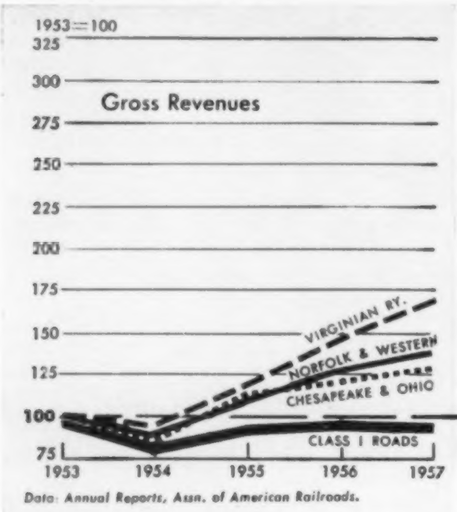
In rejecting FTC's argument on appeal, Justice Tom Clark said the case turned on this question: "Were Standard's reduced prices . . . made pursuant to a pricing system rather than to meet individual competitive situations?" The evidence, he said, shows that "both major and local suppliers made numerous attempts in the 1936-1941 period to lure these 'jobbers' away from Standard with cut-rate prices." Clark noted that Standard actually "haggled" with one of the "jobbers," who had received lower price offers from suppliers.

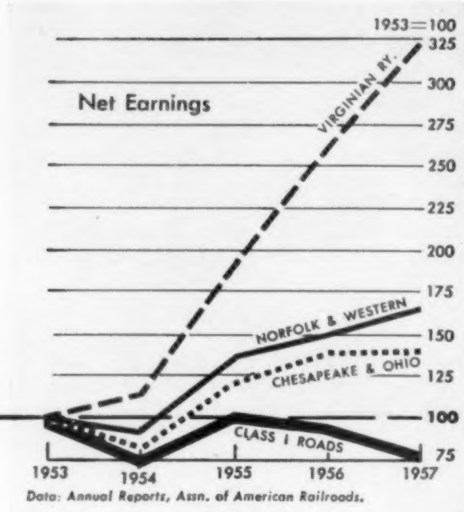
Thus Standard's lower price was "a competitive deterrent . . . which we believe within the good faith defense of the Robinson-Patman Act."

In dissent, Justice Douglas and three others said Clark's opinion "cripples the enforcement of the act." They felt FTC had proved Standard was not acting in good faith and that the court was decreeing "the law of the jungle" in supporting Standard's pricing.

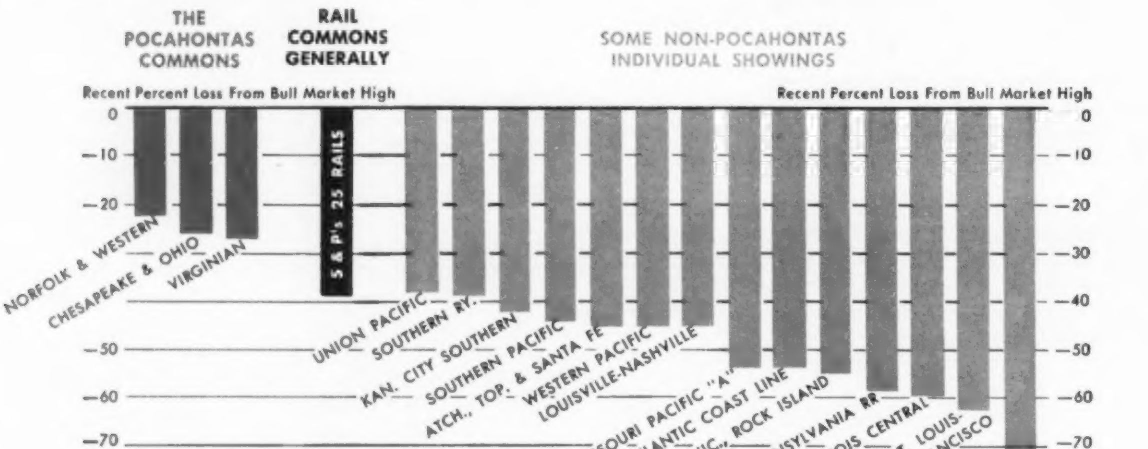
THE POCAHONTAS ROADS: One Bright Spot in the Drab Rail Picture

IN OPERATIONS...





IN THE STOCK MARKET...



Rails That Run in the Black

The chorus of glum foreboding about the prospects for the railroads was interrupted last week by a clear strong voice from within the railroad industry's ranks.

This clashing note—cheerful but restrained—was struck by William White, now president of the Delaware & Hudson and boss of the New York Central until the ambitions of the late Robert R. Young led him to take over that huge domain. White told the New York Society of Analysts last week that he refused to predict unmitigated trouble for the railroads though woe lay ahead for some. "I just don't think," he said, "that all the railroads are 'going to hell in a handbasket.'"

"There are," he told the Wall Street analysts, "about 55 railroads in the country that have revenues of over $25-million. Of these, I would judge that about 11 would give serious concern if the present slump in business should last very long. A majority of the 11 are in the East, and unfortunately two of these railroads are the two largest in the country.

• **Point of Strength**—White named no names, but his savvy audience knew

that the hard-pressed pair of giants had to be the Pennsylvania and the New York Central.

By the same token, they could figure out which roads were not in trouble at all—and none of them more thriving than the so-called Pocahontas group: the Norfolk & Western, the Chesapeake & Ohio, and the Virginian Ry. For the wise men of the industry have long known that trio for their sturdiness—a sturdiness somewhat paradoxical in the face of the twin handicaps that often prejudice the uninitiated against the Pocahontas lines.

The three lines, after all:

• Lie largely in the East, where railroads are finding their most unfavorable conditions.

• Depend to an extreme degree on the ups and downs of the excessively volatile soft coal industry.

• **Old Favorites**—In the face of these handicaps, the Pocahontas roads have long enjoyed a very high Street standing as investments, far higher than the run of railroads, especially in the East. You can get the measure of this favor from Standard & Poor's rating of the 47 rail commons that are traded actively on the Big Board. This rating is based on "earnings and dividend stability and growth."

S&P's admits only three of the 47 roads to the top rating of "excellent," with another seven in the runner-up category of "good," and another nine in the third group of "above average" investment risks.

What's more, of the 19 rail sheep that S&P's separates from the goats, only three are in the East. Those three: the Pocahontas trio. In the topmost category, the Norfolk & Western is perched with those two rich transcontinentals, the Atchison, Topeka & Santa Fe and the Union Pacific. The Chessie and the Virginian sit in almost equal splendor in the "above average" group.

• **Stock Prices**—Big Board stock tables, shown in the lower chart on page 54, make the Pocahontas roads look even better. Last week, the trio had sagged a modest 21%-26% from their bull market highs, while S&P's index of 25 rail stocks had tumbled a much steeper 39%. Other representative rail commons, including some with investment ratings equal or better than the Pocahontas trio, had dropped individually from 37% to 70%.

This relatively strong showing is no flash in the pan. Neither the N&W nor the Chessie has had a losing year in this century, while in its much shorter life the Virginian has never used red ink on operations. This shows up in dividends; since 1901, the N&W has never cold-shouldered its stockholders while the Chessie missed only in 1915 and 1921. The Virginian in its lifetime has paid dividends in every year except 1933 and 1934.

• **The Gap Widens**—In the past five years, the Pocahontas superiority has become even more marked as you can see in the top charts on page 54. More recently, with business souring, the margin has increased.

Thus last year Pocahontas gross revenues showed gains ranging from 26% to 70% above 1953, while the Class 1 roads as a group were dropping 1.5%. In earnings, Pocahontas climbs ran from 22% to a sensational 41%—for the Virginian—against an average Class 1 shrinkage of 18%. The Virginian, long one of the rail industry's lowest-cost operators, rocketed on its extraordinary ability to handle much bigger loads without any proportionate increase in operating costs.

This fine showing in earnings and dividends has not been achieved by any cheese-paring on maintenance. Pocahontas spending on upkeep has always been above average, and few roads can match the record of the trio for efficient operation. Down among the lowest, in fact, are their transportation ratios.

In working capital, the three have always held very strong positions. And as for long-term mortgage and equipment debt, all three—especially the N&W—are in much better than average posture.

• **Carrying Coal**—It's a railroad axiom that the coalhauler's trade is not one of unmixed blessings. Coal has to be carried at one of the lowest rates in the railroad business, and nearly all the hauls are one-way, with the long lines of cars making the return trip empty and revenue-less.

There are blessings, though. The traffic can be very profitable if the coal moves for long distances in the great volume of solid train loads. For the Pocahontas trio, the distances are long and the size of the trains is limited only by the power of the locomotives. Thus the typical drag for the Chessie is 160 cars or more, with loads running up to 11,200 tons.

• **Family Resemblances**—In their Eastern operations, the Pocahontas lines are pretty much lookalikes, physically. Each maintains important coal shipping facilities in the Norfolk-Hampton Roads area. And between the coastal terminuses and the coal producing region they serve, each has major interchange points with the North-South trunk lines. In the mine fields, each has an invaluable web of branches that gather coal.

These physical resemblances vanish west of the coal fields. Chessie—which was the baby of Robert R. Young until he moved on to the much bigger, much less profitable New York Central—has main lines pushing on west and north to Louisville, Chicago, and up into the industrial area of Michigan. The Norfolk & Western, for its part, runs on to Cincinnati and Columbus, where it ties in with the Pennsy, which has long controlled it. The N&W also operates two north-south lines, one of which ties into the Pennsy at Hagerstown, Md. As for the Virginian, which is controlled by the Mellon-Koppers interests, it has its western terminus at Deepwater, W. Va., where it connects with the New York Central, and the coal traffic it turns over to the latter plays a big part in making Central the second-largest coal-terminating system.

• **Demand**—The three roads get their name from the famous Pocahontas coal field of West Virginia and Kentucky, which they serve virtually exclusively. And domestic demand for Pocahontas coal plays a key part in determining their haul. Since the early 1920s, that demand has called for an increasing share of the nation's total soft coal production. That rise is due to two factors:

• The Pocahontas field has had less than its average share of labor trouble, which has permitted prompt deliveries and has kept the rise of costs within some sort of bounds.

• Pocahontas coal is of high quality, which has made it especially popular in utility plants and throughout industry generally.

Still, domestic demand has not contributed all of the Pocahontas prosperity in the past few years. A huge demand for exports has brought a fine soft cushion. Last year, the three roads carried a record 60.7-million tons of coal to the Norfolk area for foreign and coastwise shipment by water; that topped 1956 by 16.6%.

• **What's to Come**—Most Streeters are high on the longer-term prospects of the Pocahontas lines, although they are keeping anxious eyes on the progress of such potential coal rivals as nuclear power.

Meanwhile, the expert view is that the roads will have to live through some "resting periods"—one of which is already here. The analysts note particularly that foreign demand for U.S. coal is waning, with no real improvement in sight for the near-term. Thus some people in the industry expect this year's exports to drop 15%-20% below 1957.

Domestic sales of bituminous have been off, too, pressed by falling steel production and the decline of general business activity. A real comeback for coal depends on a basic and sizable upswing in the economy. And while most analysts are hopeful that such a resurgence is coming before too long, they doubt that it will be soon enough to stave off a 1958 drop of something like 15% from last year's estimated 488-million-ton output of soft coal. END

Wall St. Talks . . .

. . . about scare in fourth-quarter earnings . . . Penn-Texas rumors . . . a sag in assets of Massachusetts Investors Trust below $1-billion.

Fourth-quarter earnings are shaking the confidence of those investors and traders who had managed to stave off bearishness, Streeters report. Some specimens: among the steels (page 110) Republic, third largest producer, had a 65% drop (from \$2.22 to 77¢) in per-share earnings, compared with the year-before period; Jones & Laughlin, fourth largest, was down 43% (from \$1.60 to 91¢). Among the oils, partial figures show Pure Oil's net off by 20%, Sinclair's by 34%.

Penn-Texas rumors keep on seething. Streeters hear that L. D. Silberstein will quit as chairman and president . . . that negotiations are snagged with Rockwell Spring & Axle over the sale of P-T's hefty holdings of Fairbanks, Morse stock (BW–Jan.18'58,p38), because Rockwell won't pay over \$25 a share, against a market value around \$39-\$40 . . . that Crescent Co., a P-T subsidiary, is about to be sold back to its former owners.

Net assets of Massachusetts Investors Trust, the biggest open-end trust, sagged below \$1-billion at the yearend, for the first time since early 1956. And the net asset value of its shares, allowing for a capital gain distribution, slid downward 15% during 1957.

Prospects for 1958 rail earnings look bad to the Street, except for a few roads (page 54). One analyst thinks the net of the Class 1 roads may skid to about \$600-million, a drop of 18% from 1957. That would be the lowest earnings since 1949, and a drop of 35% from 1955's record \$927-million. Chief victims, of course, would be some of the East's biggest carriers.

Market letter gleanings: The market's ability "to withstand adverse business reports in the weeks ahead will largely determine whether a dynamic policy is justified. Meanwhile, the prudent course is to emphasize the consumer goods categories, where earnings are stable or rising and . . . credit trends are bolstering security values" (Standard & Poor's) . . . "Easier money will continue to help income-type, defensive stocks. Unfortunately, the bases are nowhere near laid yet for a new business boom, nor for a new long bull market" (Moody's).

Safe fuel feeding insures IRBM rocket's red glare

This flaming exhaust comes from a test stand of Rocketdyne, a division of North American Aviation, Inc., where the nation's most powerful rocket engines are tested for IRBM missiles. Tube Turns provided the stainless steel fittings for safe, corrosion-resistant piping for the propellant.

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*"TUBE-TURN" and "tt" Reg. U. S. Pat. Off.

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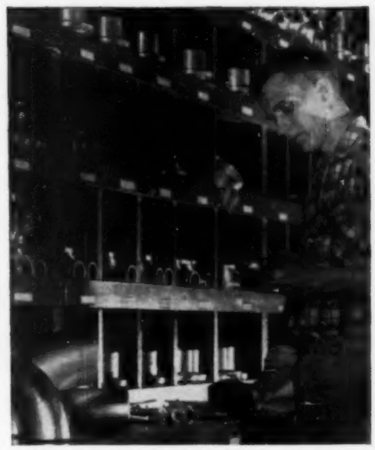
IDENTIFIED. Each TUBE-TURN Welding Fitting is marked with complete specifications and quality control data. This stainless steel installation serves a liquid oxygen tank. Courtesy Herrick L. Johnston, Inc., Columbus, Ohio.



SIMPLIFIED PURCHASING. Your nearby Tube Turns' Distributor provides complete line service — more than 12,000 fittings of all materials, sizes and types. Saves your purchasing time. Photo courtesy McJunkin Corporation, Charleston, West Virginia.

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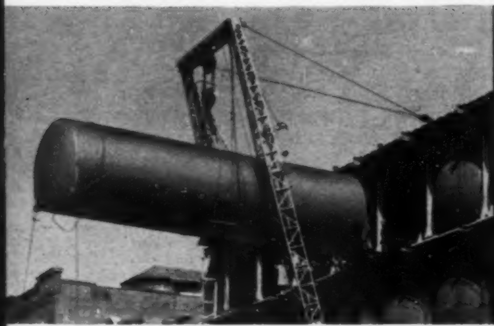
So, with the finest product on the market, what did A. O. Smith do? Developed a better one, of course.

* U. S. Patent No. 2,754,222 and other patents pending.



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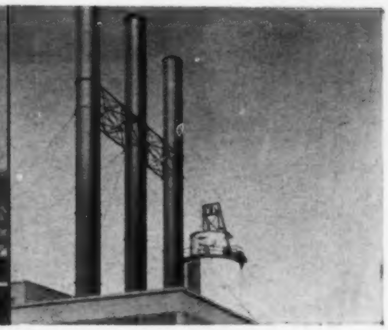

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FINANCE BRIEFS

New public financing last year hit $9-billion, a new record and about $800-million better than the 1956 mark, Investment Dealers' Digest reported this week. Business and industry raised another $4.5-billion in 1957 through bonds and preferred and common stocks placed privately.

•

Optimism at AMC: American Motors Corp. will score a "substantial profit" for the fiscal year ending next Sept. 30, Pres. George Romney predicted last week. In the first quarter of the current fiscal year, the company made almost $5-million (BW–Jan.11'58,p78). It was the first profitable period since the three months ended June 30, 1955.

•

U. S. business failures (BW–Dec.21'57, p38) were 13,739 last year, the highest since 1939 and a sharp rise from the 12,686 casualties recorded in 1956, according to Dun & Bradstreet. Dollar liabilities climbed 9% during the year to a $615-million total.

•

In its annual report to Congress, the Securities & Exchange Commission hinted it may push for a change in its long-standing rule exempting from registration new stock issued by a company formed by merger. The rule, SEC explains, is sometimes used as a "loophole for evasion of the registration requirements."

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Public Service Electric & Gas Co. of Newark has resumed negotiations to sell 250,000 shares of its cumulative preferred stock sometime around March 4. Negotiations had been suspended last June because of an unsettled market.

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Municipal new issues are launched on another big year, says the Investment Bankers Assn. of America. IBA thinks a volume of at least $7-billion is assured, compared with 1957's near-record $6.8-billion. But IBA believes that new corporate offerings will be lower than last year.

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Another dividend casualty is Forster-Wheeler Corp., maker of steam generating equipment. This week the board took no action on a first-quarter dividend, presumably because it believes that 1957 earnings were "substantially reduced." The company has been paying 40¢ quarterly for some time.

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Consumer credit collection delinquencies worsened in November, reports the American Bankers Assn.'s installment credit commission. Delinquency ratios, however, at the month's end still remained below the peaks reached in 1953-1954 years.

REGIONS

Oil Rush, Air Hub, and Dewline—

That's New-Style Alaska Frontier

Opening of 20-million more acres of tundra to oil hunt, plus farm surge and tax bait for industry, give new fillip to economy—but today's sober-minded Alaskans shun word "boom."

Picture a land mass stretching from Maine to Florida, from the Great Lakes to the Gulf of Mexico, embracing our 20 easternmost states. Wrap around it a coastline greater than that of the U.S. itself, and you have an image of Alaska (map, left).

But that's only one image, and an extremely deceptive one. For Alaska, twice the size of Texas, one-fifth as large as all the 48 states together, is a single entity only by virtue of the fact that it was delivered to us in one package. In its variety of climates and economic resources, it could be half a dozen states.

• **Dream of a Star**—In the months just ahead, both houses of Congress will be asked to vote on statehood for Alaska. The bill has cleared the hurdle of committee hearings. That's as close as "Seward's folly" has come in 90 years to realizing its dream of self-determination.

By no means is that dream shared by all the 215,000 Americans—whites, Indians, and Eskimos—who populate Alaska. Among the champions of statehood, however, the conviction is strong that the U.S. is ready to add a 49th star to the flag. And this heady prospect has imparted a buoyancy to life in that little-known frontier that sits astride the Arctic Circle.

• **Boom in the Making?**—A BUSINESS WEEK reporter emerged from a hard look at the territory last week muttering that Alaska is on the threshold of a boom. Alaskans don't like the ugly cyclical connotations of the word "boom," and they abhor the living-cost gyrations that a genuine, hell-roaring boom could evoke. Away out at the end of the supply line, where freight costs are double because there's no backhaul to speak of, they've already got all the high cost of living they can stomach.

That's why people like Bill Snedden, publisher of the Fairbanks Daily News-Miner, and Bob Atwood, editor of the Anchorage Daily Times, soft-pedal the boom talk. They point out that the Alaska economy no longer rests on salmon and gold. The accident of geography and some purposeful planning have given Alaska other economic props.

• **Far Northern Livelihood**—The military forces, accounting for possibly one-fourth of the population, contribute importantly to Alaska's dollar wealth. White civilians outnumber by 3 to 1 the Eskimos, Indians, and Aleuts.

Federal employment, numbering some 15,000, is responsible for the largest block of civilian income, in excess of $60-million. Mainly because of large defense works, construction payrolls have been running a close second, although they are down now.

Economists pierce the air with anguished cries when they try to analyze Alaska. Whatever statistical bases are available crumble under the quirk of seasonality—the carpenter who shifts to taxi driving in winter, the fisherman who takes his bundle back to Seattle after the fishing season. The territorial Employment Security Commission can't build up its unemployment insurance fund because of seasonal drains.

I. Jet Age Frontier

Jack London and his contemporaries created vivid fiction about the Arctic after the Klondike gold rush of 1897. It was both vivid and authentic, and it created a lasting image of Alaska as a frozen waste in which man's struggle against the elements ends in disaster. No comparable literary figure has come forward to record that the dogsled in Alaska is as outmoded as the horsecar in New York.

The Boswells of the Yukon, mushing up to a Dewline station on the Arctic Coast today, would be shocked to find Sector Superintendent Randall Joyner working in his shirtsleeves in a steam-heated office, at his elbow a phone that connects him to his home office in New York within moments.

If they hit Anchorage at the right time, of course, they'd see dogsleds racing a measured course on Fourth Avenue—although the snow might have to be imported, and the dogs and their Eskimo owners would have been flown in from remote corners of the Arctic.

• **Busy Skies**—In Anchorage, the Civil Aeronautics Administration operates the fifth busiest airport in the world, ranking behind Chicago, Los Angeles, New York, and Miami (London, busiest foreign port, ranks far down the list). This is due in large part to the fact that private planes are almost as popular

GOVERNOR Mike Stepovich, first native Alaskan appointed to post, finds oil lease fees a welcome prop to territorial budget.

DEWLINE early warning radar stations are Alaska's last frontier—with steam-heated offices, daily supply plane.

ANCHORAGE, territory's biggest city with 100,000 people, preserves its frontier traditions—but its airport is fifth busiest in world.

(ALASKA starts on page 62)

as autos. But the 8,400-ft. runway is also an important domestic and international traffic center. Anchorage is a refueling point for Scandinavian Airlines System flights between Copenhagen and Tokyo. Air France is planning to make it a way station.

• **Frontier With 1958 Trimmings**—The frontier flavor is unmistakable—the low, flat buildings, the hustle, the feverish scrawling on cocktail napkins at the bar of the Westward Hotel, the walk-up office buildings. But it's a 1958 kind of frontier. The skyline is broken by two 14-story apartment buildings of steel and glass that tower nakedly over their neighbors. Jet planes streak across the sky in the midday dusk. The landscape is dotted with new schools, and more are on the boards.

Anchorage, with a population of 100,000, is Alaska's largest city. That population figure is deceptive, for it includes not only some residential suburbs of lovely homes but also the families of servicemen temporarily at nearby Elmendorf Air Force Base and Fort Richardson. Its true value as an economic statistic is limited because more than half the working population is employed by the federal government—a tax-exempt employer, as City Manager George C. Shannon is quick to point out.

II. Uncle Sam's Hand

Evidence of federal domination in Alaska is never very far below the surface. The government owns something more than 98% of all the land. In distributing largesse, the absentee owner has been about as benevolent as you could expect a bumbling bureaucracy to be, but in its lack of understanding of local needs and conditions it perpetrates what feel to Alaskans like some towering injustices.

• **City's Burden**—Take the Alaska RR, a modern, efficient, 440-mile system that links Anchorage with Fairbanks in the interior and Seward on the Kenai Peninsula. It's owned by the U. S. and does a profitable business. Its central offices and yards are in Anchorage.

The railroad, being government-owned, is exempt from city taxes. Until recently the railroad maintained its own fire-protection system at a cost of $90,000 a year. As the city improved its fire rating, the railroad proposed that its properties be taken under the municipal wing for a fee. The city agreed to do it for $30,000 a year.

The shift was made, but then the ponderous machinery of federal government began to turn. We'll pay no fee, said Washington; fire protection is the city's responsibility. So the railroad saved a clear $90,000 and the city was

saddled with the fire-protection job, receiving for it no payment.

• **Red Tape Paradise**—It isn't that Washington sets out with malicious intent to be a freeloader, but rather that an economic complex the size of Alaska is a paradise for the red-tape-happy bureaucrat. In some matters the Great White Father in Washington is the soul of generosity; he picked up half the tab for 11 schools that Anchorage has built since 1950.

• **Welcome Change**—Alaskans have been carrying on an abortive vendetta with Washington for a good many years. Recently they've been less caustic. The reason for the change is Fred Seaton, Secretary of the Interior.

"Fred Seaton has done more for Alaska in the last 16 months," says Bill Snedden, the Fairbanks publisher, "than anybody else in the last 50 years."

To appreciate the tenderness of that sentiment, you must understand that past secretaries of interior have been about as popular in Alaska as a fuel oil salesman at an anthracite convention.

Seaton celebrated his 48th birthday in December. The Fairbanks Chamber of Commerce had one of its members bake a 220-lb. birthday cake, and flew it to Washington for presentation by Delegate E. L. Bartlett.

III. Today It's the Oil Rush

The latest Seaton gesture to win Alaska's approval was his revocation of Public Land Order 82, by which the government in 1943 blocked off the whole Arctic coastal slope against oil leasing and exploration. Some 20-million acres of tundra are thus restored to the public domain, and the scramble for leases is on.

In the long term, Alaskans view this gesture as one step in many that will permit their economy to find its own level. There is also a short-term advantage. Lease applications must be accompanied by a filing fee of 25¢ an acre.

Peanuts? Talk to Gov. Michael A. Stepovich, the dark-eyed young lawyer from Fairbanks who is the first native son to hold that appointive office. Mike Stepovich makes it clear that the filing fees are more than peanuts.

• **Buried Treasure**—For more than half a century, oil geologists have been poking into the Alaska soil. Drilling has been desultory and largely unrewarding. It persists because oil men generally affirm the belief of a distinguished geologist at Standard Oil Co. (N. J.) who said in 1941 that, geologically, Alaska is one of the four great oil provinces in the world. (Events proved him right about the other three: the Middle East, Southeast Asia, the Gulf of Mexico.)

On U.S. Naval Petroleum Reserve No. 4 (map, page 62), created in 1923, oil and gas have been found, but both wells were capped some years ago. Last July, Richfield Oil Corp. brought in a discovery well on the Kenai National Moose Range south of Anchorage. Because of restrictions to protect the dwindling moose herd, Richfield hasn't yet been able to test the productive capacity of the well, variously estimated at from 400 to 900 bbl. per day. Standard Oil Co. of California, a partner in the Richfield exploration, is drilling a second well nearby.

• **Cash in the Treasury**—"In 1957," says Gov. Stepovich, "16-million acres were leased for oil exploration, the vast bulk of that since the Richfield strike on July 23. At 25¢ an acre, that comes to $4-million. Under a 1957 act of Congress, Alaska's general fund gets 90% of that, or $3.6-million. Not many people realize that $3.6-million is equal to almost 10% of our annual budget—40% of our 1956 territorial income tax collections."

Should oil production follow, the territory would also receive 90% of the 12½% royalties.

With 20-million acres of Arctic slope opening up this fall under Seaton's order, the general fund apparently is in for another windfall.

• **Widening Hunt**—If the oil companies have any real optimism about Alaska oil, they're keeping it to themselves. Richfield and Standard of California have committed themselves to spend up to $30-million on their joint venture. Humble Oil & Refining Co. and Shell Oil Co. are probing into the Jute Bay area of the Alaska Peninsula. Phillips Petroleum Co. has spent $8-million in the Icy Bay region on the Gulf. All the majors are at work. In a special study of the widening search for oil, the Anchorage Chamber of Commerce sees it as a $100-million investment—plus another $200-million for facilities if the search is successful.

• **Moose First**—Restrictions on oil activity on the Kenai Moose Range illustrate the frustrations of territorial impotence. Even organized sportsmen have urged relaxation of regulations to permit orderly examination and development of the oil potential. But the welfare of 4,000 moose—10% of Alaska's total—prevails.

Pres. Elmer E. Rasmuson of the National Bank of Alaska at Anchorage notes that almost 25% of the territory's land mass is in a reservation of some sort. In this respect, he says, Alaska "became the victim of an outdated conservation philosophy that was a sort of vicarious atonement for the waste of the motherland."

• **Bracing for It**—Anchorage businessmen have given a good deal of thought to how they can brace for the rush of drilling that's expected to start this

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FORCE 58 TRUCKS

summer and what will happen to their town if a real oil boom gets rolling.

A couple of months ago they passed the hat along Fourth Avenue and collected $5,000 for an impact study. They engaged James Dalton, prominent Alaska mining engineer, to study the impact of the Williston Basin and other oil fields on neighboring communities. Nobody is spending the money before the oil starts to flow; it's just that the business community doesn't aim to be caught without orderly plans.

IV. Ready for the Future

The passion for methodical preparation is the stamp of the new breed of Alaska frontiersman. Two years ago, in preparation for statehood, delegates assembled on the campus of the University of Alaska at Fairbanks and framed a constitution. Subsequently the voters elected two U. S. senators and one U. S. representative. If the statehood lightning strikes, Alaska won't waste a precious moment getting into Congress.

• **Lure for Industry**—Last spring, the territorial legislature passed and Gov. Stepovich approved a tax incentive law to lure new industry. A business that qualifies may be exempted from all local and territorial taxes up to 10 years—an exemption that extends in the same degree to the dividends it pays.

The measure was aimed primarily at processing industries that can exploit Alaska's vast potential of timber, hydroelectric, and other natural resources. It holds a lure also to build Alaska's $27-million-a-year tourist industry.

Pacific Northern Lumber Co., Portland, was first to qualify for tax exemption. It will build this year a $1-million sawmill and lumber kiln at Wrangell.

Also seeking to qualify is Alaska Lumber & Pulp Co., which is building at Sitka a $55.5-million pulp mill to be in production by 1960. The project is financed largely by Japanese capital, and its entire output is to go to Japan.

• **Cradle**—The cradle of the new Alaska—the bridge between the fictional Alaska of yesterday and the bumptious Alaska of today, as well as the center of its preparations for the future—is the University of Alaska. Its president, Dr. Ernest N. Patty, is proud of its role. A distinguished mining engineer, Patty left the faculty for a successful business career, then returned to his first love.

• **Abundance Underground**—Patty is a hard-headed realist. He acknowledges Alaska's abundance of mineral resources, but admits "we'd have a hard time if we fell back on our metals." Gold-bearing gravels that once yielded $24-million a year now produce $7-million for lack of any price or tax incentive. At Goodnews Bay, Alaska produces 95% of the domestic supply of plat-

inum. On the Seward Peninsula is the only known deposit of tin in the U.S.

Alaska has excellent coal deposits along the rail belt. Tests are being run on some uranium ores. Chromite, mercury, iron, limestone, volcanic ash—you name it, Alaska has it.

On Patty's staff are two scientists who represent extremes in the Alaska economy—Dr. Allan H. Mick, director of the university's agricultural experiment stations and extension services, and Dr. Max Brewer, a permafrost expert who heads the school's Arctic Research Laboratory at Point Barrow.

• **Sunlit Crops**—In the warmth of the faculty lounge, with the outdoor temperature skidding toward minus 25F and an ice fog closing in, Mick's optimistic assessment of Alaska agriculture isn't easy to accept. Yet there are, in the Matanuska Valley south of here, some 1,400 farm families whose prosperity attests to his words.

The Alaska farmer exploits the sub-Arctic quirk of long summer daylight to stretch his four- or five-month growing season to the equatorial equivalent of eight months.

For a long time, Alaskan agriculture labored under the criticism that its produce was watery, flavorless. The reason was that farmers, with so much assistance from the sun, paid little heed to the need for soil nutrients. That day is past. Now the Alaska farmer is marketing quality crops.

In the past 10 years, says Mick, the farm value of Alaska's produce has almost quadrupled to $3.5-million.

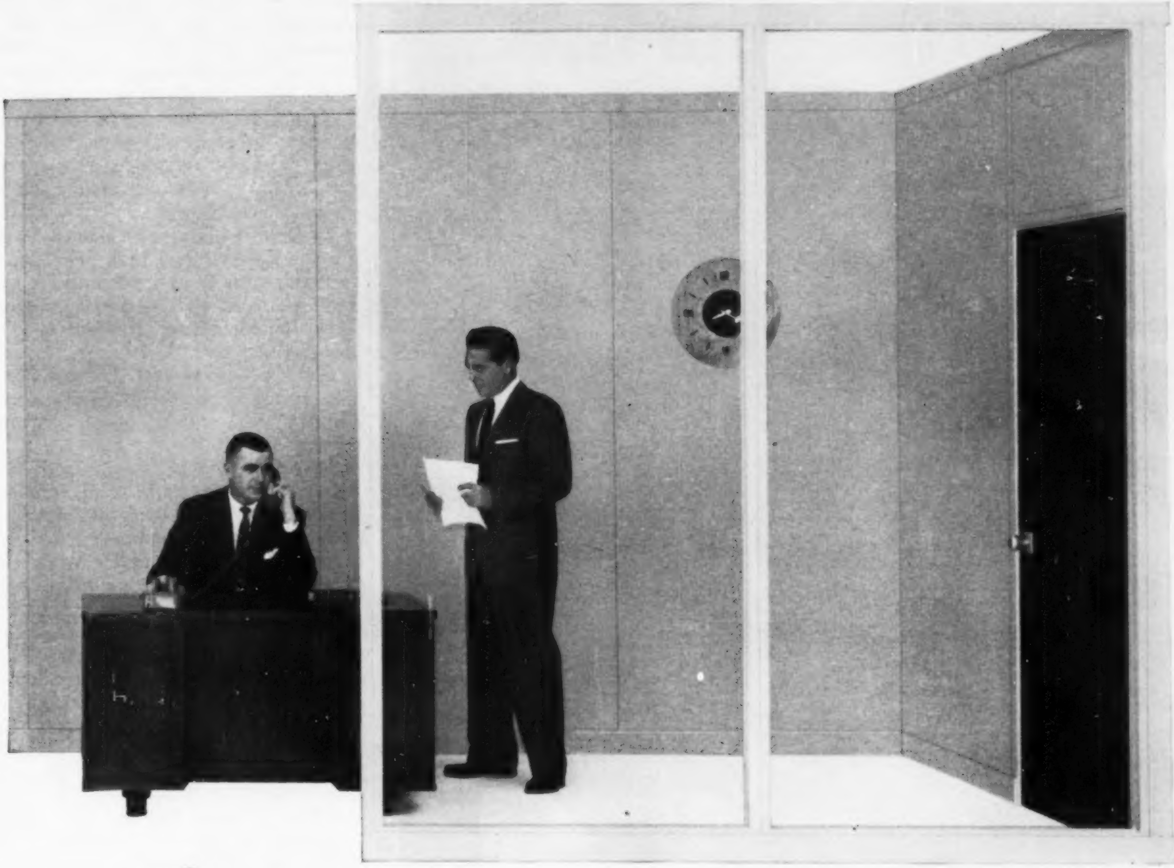
• **Lonely Research**—Max Brewer and a handful of helpers man the lonely outpost of the university at Point Barrow. There, in cooperation with the Office of Naval Research and the Arctic Institute of North America, his Arctic Research Laboratory is poking into a variety of esoteric phenomena.

At the Barrow laboratory, and in eight satellite camps occupied at various seasons of the year, the Brewer group is concerned with physiological, botanical, zoological, oceanographic, geological, geophysical, bacteriological, glaciological, even archaeological research.

In summer they maintain a camp at McCall Glacier, 400 miles east of Barrow. In February, the oceanographic and biological groups land a light plane on the polar ice cap 100 miles north of Barrow to measure depth of the ice and to measure the salinity and temperature of the underlying water.

V. Defending U.S. Doorstep

This is sensitive work, demanding scientists who are both rugged and dedicated. Brewer sounds an ominous note. "We're 20 years behind the Russians in Arctic research," he says, "and at the rate we're going we'll never



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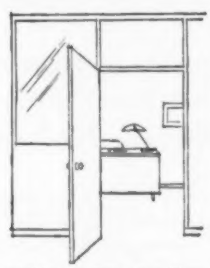

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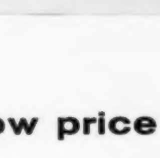

catch up. As long ago as 1937 they demonstrated that they could land a four-engine plane on the ice cap. Who is to say when they might find the ice a stable launching platform for missiles?"

That's a question for Americans to ponder. In the polar projection concept of world geography, the Arctic Ocean is the doorstep of the North American continent.

• **In Depth**—Almost nowhere in Alaska are you apt to forget that. The armed services are there in depth under a unified command—the Alaskan Command—that antedates the consolidation of the services.

Besides their normal defensive role, the services are training men in the realities of combat under extreme weather conditions.

• **Dewline**—Two of the components—the Alaskan Sea Frontier and the Alaskan Air Command—had vital roles in one of the great engineering achievements of all time, completed only last year. That was construction of the Dewline—the \$500-million chain of "distant early warning" radar stations across the rim of the continent. The radar fence and the supporting "White Alice" communications system are operated by Federal Electric Corp., subsidiary of International Telephone & Telegraph Corp., under supervision of the Air Command.

While Western Electric Co., prime contractor on the electronic marvels, battled the technical problems involved, the Navy tackled the staggering problem of transporting hundreds of thousands of tons of materials to a forbidding seacoast that is relatively ice-free only a couple of weeks a year.

Scant evidence of that labor is now visible. The mountains of material have been assembled into compact little electronic sentry posts, miles apart. Under winter's mantle of snow, they're scarcely visible.

• **Grapes in the Snow**—But you know they're there. Every day except Sunday Federal Electric sends a supply plane from Fairbanks to the Arctic coast. It carries mail, perishables, electronic gear, and other supplies to the technicians standing guard.

The supply mission is carried out by Interior Airways, a contract carrier. Interior's Dewliner deposits its cargo at two main stations along the coast, then lighter planes handle the redistribution to the substations.

You fly along the Dewline for a couple of hours in the half-light of an Arctic winter afternoon.

Out of the gloom the pilot eases the Dewliner onto the frozen runway at one of the supply stations. You're invited inside to keep warm while the plane is unloaded. On the mess table, for between-meal snacks, are a bowl of fresh grapes and a tray of bananas. **END**

In Business Abroad

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Chinese Chemical Industry Mission Gets Cold Reception in Japan

Industrialists in Japan are cold-shouldering a chemical industry mission from Communist China. The Red Chinese visitors are trying to get the Japanese to supply entire plants for the production of synthetic chemicals.

But Nippon's chemical leaders don't want to build up potential competition for their own export markets in Southeast Asia. Besides, they fear the unfavorable reaction of U. S. officials and U. S. chemical companies with Japanese connections.

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International Products Corp. Adds Oil To Its String of Interests in Paraguay

International Products Corp. of New York has signed an agreement with Rimrock Tidelands, Inc., Shreveport, La., to share development of a 7.5-million acre oil concession in Paraguay. The concession lies in the former battlefield region of the Chaco, and consists of three tracts. **Two of them, totaling 4-million acres run parallel to the Bolivian and Argentinian borders and lie near gas and oil fields in the two neighboring countries.** The third tract of 3.5-million acres, adjoins a Pure Oil concession in northeastern Paraguay.

International Products Corp. already is the largest industrial company operating in Paraguay, with cattle, timber, and quebracho interests, plus a railroad.

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Irish Airlines Will Hop Atlantic Starting in April

Irish Airlines, a part of Aer Lingus, Ireland's National Airways, has scheduled its first transatlantic flight service to the U. S. for April.

Initially, three flights a week will link Shannon and Dublin with New York. **A Boston to Shannon service will be added later in the year.** By late spring, Irish Airlines plans to step up the program to include daily flights.

The new service will be flown by Lockheed Super-Constellations on lease from Seaboard & Western Airlines.

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Coffee Producers in Latin America, Africa Join Hands to Bolster Prices

Coffee prices won't drop any further, if Latin American and African coffee countries can help it. At a conference in Rio de Janeiro, representatives of 26 producing countries on both continents joined forces last week-

MORE NEWS ABOUT BUSINESS ABROAD ON:

• P. 79 Revolution in Venezuela topples dictatorial regime of Perez Jimenez

end to bolster the world coffee market. This is the first time that African producers have joined in such a session.

The delegates at the Rio meeting agreed to:

• Raise a joint fund of about $9-million to encourage the world to drink more coffee. The fund is to be raised by a levy of 25¢ for each 22-lb. bag and up of Latin American coffee, and 15¢ for the same bag of African coffee.

• Establish a permanent world headquarters in Rio to watch production trends in member countries, and consumption habits in the U. S. and Western Europe.

• Avoid any drastic price cutting by individual members. Brazil, the only member with a really big surplus, apparently got this point accepted by threatening large-scale dumping.

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Portugal Orders Steel Mill From Belgo-German Group

Portugal has ordered a 250,000-ton capacity ingot steel mill from a Belgo-German consortium consisting of Rheinstahl Industrie-Planung G. m. b. H. and Carl Still of West Germany, and the Belgian syndicate, Syberta. The order is worth about $48-million, of which Syberta will pocket 40%.

The project will be located at Seixal, south of Lisbon, to take advantage of high-grade ore deposits in southern Portugal, as well as sizable quantities of purple ore for smelting. Plans call for completion within three years.

The mill is designed to expand basic industry on the Iberian peninsula, and is expected to give Portugal a big talking point in negotiations now under way with Spain for the creation of an Iberian Common Market between the two countries.

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Business Abroad Briefs

The Scotch Whiskey Assn. is tipping its hat to U. S. consumers of Scotch. In 1957, the British sold more than 9.75-million gallons in the U. S., or almost 60% of their total whisky exports. In 1956, the U. S. took 8.78-million gallons, and in 1938 only 3.92-million.

Britain's Automobile Racing Club has invited a Russian team to international meetings at Goodwood and Aintree this year. The Russians claim to have a 2.5-liter, six-cylinder racing model, called the Kharkov Six. They say the car has a speed of over 200 mph. Experts doubt its ability to hold up on road circuits over Grand Prix distances.

The Germans are building Zeppelins again. Under license from Goodyear Aircraft Corp., Metallwerk Friedrichshaven on Lake Constance is now constructing a nonrigid dirigible 157 ft. long. But, unlike Germany's last big airship, the Hindenburg, this Zeppelin will be used for advertising over West German cities.

How to be younger than your years

When you meet a grandfather like this who's still "young," vigorous and active . . . *even though he's nearly 65* . . . you're likely to exclaim, "He certainly doesn't look his age!"

The truth is he's what he *should* be . . . and what most of us *could* be when retirement draws near. Better still, anyone who has reached this age in good health can usually look forward to many more useful years.

Although there is no definite point at which one slips into old age, some of us may begin to feel the "wear and tear" of life around age 40 to 45.

So, the time to start taking care of your health is *before you get along in years.* A thorough check-up every year is the surest way to uncover any chronic disorder, such as high blood pressure or arthritis, at its start.

Even if your retirement may be 20 to 25 years ahead, here are some things you should do:

1. Keep your mind open to new ideas. If you always have something to do tomorrow . . . something you *want* to do . . . your mind will be alert, active. Working with and for others—in community, church and fraternal organizations—can also be a deep and lasting source of satisfaction at any age.

2. Select your foods carefully. Your diet should provide *proteins* for body upkeep and repair, *carbohydrates* for energy and foods that supply protective *vitamins* and *minerals.*

3. Control your weight. Overweight makes your heart, kidneys, lungs, liver and arteries work harder all the time. Overweight also tends to increase your chances of developing diseases of these organs.

4. Try to keep your emotions on an even keel. It is unhealthy to keep emotional tensions "bottled up." Instead we should look for ways to work them out. For some of us just talking over problems with a friend or advisor helps to clear the air.

5. Plan early for your financial security. Get competent advice about your future finances—to avoid "money worries" during retirement.

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MOBS RAN WILD in Caracas, around Miraflores Palace (above) and in slum areas, during rioting against Gen. Perez Jiminez. Now . . .

Venezuela's Dictator Is Out

Maj. Gen. Marcos Perez Jimenez, Venezuela's ruthless dictator, reached the end of the road sooner than many people expected.

On New Year's Day, he had swiftly crushed a badly managed revolt of young Air Force officers (BW–Jan.11'58,p104). Two weeks later he met a second threat to his regime by reshuffling his cabinet and assuming personally the post of minister of defense. He was holding on–how firmly, no one knew (BW–Jan.25'58,p127).

Last week Perez Jimenez was out. After two surges of civilian strikes and rioting (picture), supported toward the end by Air Force and Army officers, the strongman of Latin America's biggest oil-producing country fled by plane into exile in the Dominican Republic.

• **The Consequences**–The collapse of Perez Jimenez' regime, which had run Venezuela like a feudal estate for more than nine years, has far-reaching implications:

For Venezuela itself–in the clutches of dictators throughout most of its history–the revolution holds out the possibility of a more democratic form of government under civilian leadership.

For U. S. investors, with over $3-billion–mostly in oil development–staked on Venezuela's future, the ouster of Perez Jimenez brings on a new period of uncertainty.

For Latin America, the victory over Venezuela's iron-handed regime is sure to mean new pressure on the three remaining full-fledged dictators in the hemisphere–Gen. Batista in Cuba, Gen. Trujillo in the Dominican Republic, and Gen. Stroessner in Paraguay.

• **Back to Normal**–At midweek, the capital city of Caracas seemed to be returning nearly to normal. The "junta patriotica," a secret civilian group (including Communists) that had helped engineer the revolt, was backing a five-man junta made up of three military officers and two civilians.

Meanwhile, the three main political parties long suppressed by Perez Jimenez–the left-wing Accion Democratica, the moderate center Union Republicana Democratica, and the right-of-center Christian Social Union (COPEI)–are laying aside old rivalries and joining hands to plan for some type of democratic government for Venezuela.

I. Tyros at Self-Rule

Despite the revolution, few observers see any solid foundation for a democratic, civilian-led government in Caracas.

Venezuela was the birthplace of South America's war of liberation against despotic Spanish rule. Simon Bolivar, the military liberator, was himself a Venezuelan. But the military spirit outlived the spirit of independence in Venezuela.

Until 1935, the military and landowning classes treated the country as a huge ranch–with the spoils going to the strongest man. From 1908 to 1935, that man was Juan Vicente Gomez. He encouraged oil production, which then was just beginning. But he plugged up all forms of political expression. Following his death, the government came under the thumb of two generals.

• **Brief Democracy**–In 1945, Accion Democratica overthrew the well-intentioned regime of Gen. Medina Angarita. To take power, the party got the support of military officers. In 1947, it held the first popular elections in Venezulean history. But the attempt at democracy was short-lived–Perez Jimenez and other officers grabbed control from Pres. Romulo Gallegos, the elected candidate, in 1948.

Four years later, Perez Jimenez made a bid for popular support of his strong-arm regime by holding elections. When the election tally began rolling in with opposition candidates ahead four-to-one,

Perez Jimenez called off the whole thing and announced that he had been elected president.

• **Shaky Footing**—Against this background of military brass and political chaos, Venezuela's outlook this week is anything but clear. There may be a fairly protracted and ugly struggle for power among the various military cliques, and between them and the civilian political groups.

The present junta appears to be makeshift and essentially unstable. What the political parties hope for is a period of provisional government—for possibly as long as a year or more. Then, with military and political factions somewhat stabilized, they would like to see honest, free elections.

At the moment, none of the three political parties is well organized. And the labor movement—the major prop for Accion Democratica—is in turmoil, with new union leaders jockeying to replace Perez Jimenez' stooges.

II. Business Stake

Both U.S. and foreign companies have tried to stay neutral in Venezuelan politics. They have too much at stake in the country to show political favoritism openly—and thus to become a target for political criticism.

The Big Three oil companies in Venezuela are Creole Petroleum Corp., affiliated with Standard Oil Co. (N.J.); Royal Dutch/Shell; and Gulf Oil's Mene Grande Oil Co. Many smaller independents have moved in recently with the granting of new oil concessions during 1956 and 1957.

In addition, U.S. Steel and Bethlehem Steel have more than $350-million invested in iron ore mining in southeastern Venezuela. And in the past five years—mostly as a result of the oil boom—many top U.S. companies have set up manufacturing subsidiaries and retail operations in the country.

• **Dependent on Oil**—Oil is the key to Venezuela's economic growth—and almost all civilian and military leaders in Caracas realize this. Since 1950, direct income from oil in taxes and royalties has risen from $363-million to more than $700-million. In 1957, production averaged 2.8-million bbl. a day—up 13.5% from 1956. As additional income, the Venezuelan government has taken in more than $700-million in bonuses from the "two rounds" of new concessions.

• **Not Hurt Much**—The revolution has somewhat hurt U.S. interests—and the country's economy. Business has slowed down since December. U.S. investors have sold off some of their Venezuelan portfolio investments. Anti-foreign feeling has been boiling up, with attacks already made against immigrant Italian workers.

The business slowdown, combined with the sagging oil market abroad, may reduce Venezuela's gross national product some 20% this year, observers say. But the economy is still in good shape, with over $1-billion in gold and dollar reserves.

• **Possibilities**—The new junta says it will honor past agreements between U.S. companies and the Perez Jimenez government. Even leftist leaders deny any thought of nationalizing local oil companies.

But if a civilian government emerges from the revolution, it could create problems for U.S. interests. In the short run—to gain the upper hand over military elements—a civilian government would have to bid for broad popular support. That could bring on nationalistic attacks on foreign companies, popular demands for a bigger share in oil (Venezuela was the initiator of the 50-50 oil profit-sharing principle) and other revenues, and public support for radical programs of free trade unions.

In fact, some observers believe there is danger that a really free labor movement could get out of hand—as it did in Mexico in the 1930s, when the unions were the spearhead of the drive to expropriate foreign oil companies.

• **Long-Run Benefit**—However, top observers in Washington believe that a civilian government would be far better for U.S. interests in the long term than any form of military control. Under dictatorships, they point out, Latin countries have been breeding grounds for discontent and underground Communist activity.

It's true that since last week's revolution, the Communists in Venezuela have come out in the open again—with strong representation on the "junta patriotica." But—in Washington's opinion—they are more easily handled in the open than underground.

A strong, liberal, anti-Communist government could give them a hard time. Such a government might have to put some squeeze on the profits of foreign companies in Venezuela. But the companies, Washington feels, would be compensated more than enough by the assurance of greater political stability.

III. Cause of Downfall

What brought on Perez Jimenez' downfall—as much as anything—was the unequal distribution of the country's new oil wealth.

Most objective observers agree that his regime built much-needed roads, put up hospitals, cleared slums, and generally changed the face of Caracas and other cities with a raft of public works projects.

But while the regime's economic planning was not altogether ill-conceived, it left many gaps.

• **Shortcomings**—There were almost no outlays of money for education, relative to the country's fast-rising wealth. There was little effort to develop the agricultural sector of the economy. While per capita income rose rapidly, most of the income went into the pockets of rich businessmen and government officials in Caracas—and the cost of living rose just as fast. Public money too often went into flashy showpieces—for instance, a $50-million racetrack.

Besides these shortcomings, the regime indulged in the worst forms of political repression and corruption. The government exiled many political opponents—but it also jailed and tortured others, under the vicious direction of the secret police. While corruption in letting contracts on roads and buildings was an old game for Venezuelan politicians, the game reached a point recently when officials were taking a 30% cut under the table.

The new government now claims it's going to stop, cut back, or reexamine many projects in Perez Jimenez' spendthrift program, such as the five-mile bridge at Lake Maracaibo and the development of a huge petrochemical industry.

• **Spark of Revolt**—The initial spark that started the revolutionary fire came in May, 1957. The archbishop in Caracas distributed a pastoral letter condemning the Perez Jimenez regime for its failure to spread the country's oil riches to the lower classes and to institute social reforms.

Then, last fall, elements of the suppressed political parties grouped for action in the secret "junta patriotica." At roughly the same time, the government put Rafael Caldera, candidate of the COPEI party, under house arrest.

• **Last Straw**—The final straw was Perez Jimenez' promise—then denial—of free elections. The elections on Dec. 15 turned out to be a "yes-no" plebiscite, completely rigged to insure the dictator of another five years in power. The plebiscite infuriated university students and the young, liberal officers in the Air Force who had had a taste of American-style democracy while training in the U.S.

With virtually all important elements in the population opposed to Perez Jimenez' regime, the end seemed predictable. And there was one group that insured his downfall, say experts on the Venezuelan situation. Some of the older officers, who believed in the "rotation system" in a dictatorship, felt it was their turn to get a cut of the corruption and power in the government.

These officers may still make trouble in the near future. END

In Management

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MORE NEWS ABOUT MANAGEMENT ON:

• P. 84 How company doctors pepped up American Bosch Arma, an ailing missiles and motor parts combine.

• P. 88 Securities analysts go back to the books in basic courses run by blue-chip companies on their industries.

Insurgents Lose Two Proxy Battles, Win by a Landslide in a Third

Management has the initial advantage in the 1958 proxy fights, but more bouts are in the offing. General Realty & Utilities Corp. stockholders downed by 2½-to-1 a proposal from dissident holders to liquidate holdings of the company. Dissidents with similar intentions at Alabama Gas Corp. also were rebuffed. A year ago, the anti-management group—which wants to sell some of the utility's distributing system to serviced towns—got four of the nine board seats, but lost them all this year.

But one insurgent group has won. James T. Igoe, who last year got six of the 17 directorships at Mercantile National Bank of Chicago, this year won 13. Igoe was so sure he had enough stock under his control (BW—Dec.28'57,p54) that before the annual meeting he prepared press releases announcing the management change.

A similar claim of already controlling more than half the stock is made by Arthur J. Feicht in his battle at Fox Head Brewing Co., Waukesha, Wis. Feicht, as holder of more than 10% of the stock, called a special stockholders' meeting under a Wisconsin law, and began to solicit proxies, after he was ousted as chairman. The ouster was voted by three members of the five-man board, over objections of Feicht and Frank Huber, president, who was also let go. Both men are still directors, and are appealing a circuit court decision that the firing was legal. The meeting is set for Feb. 28.

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Government Is Last Place To Sell Ideas, Inventors Say

If they can't sell it to industry, most inventors would rather drop an idea than try to market it through government channels, according to a study by George Washington University for the National Inventors Council. NIC is a board of industrialists created by the Commerce Dept. to process defense inventions submitted by the public.

About 500 inventors answered the questionnaire. More than 25% of them have had inventions adopted by the government or by defense contractors. Another 40% thought they had ideas that would be useful in national defense but either had not submitted them to the government, had dropped negotiations midway, or had been turned down.

The study also found:

• An inventor is less likely to think of a device that can be used in national defense, because he knows less about the needs of this field than the civilian market.

• Even if such an idea occurs to him, the inventor isn't likely to develop it. He thinks private industry will pay better for ideas related to its products.

• Even if he does develop such an idea, the inventor will submit it to the government only as a last resort. He doesn't know what procedures to go through, and he is afraid of getting snarled in red tape while dealing with Pentagon people who aren't interested in his idea.

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Public Gets a Chance to Bid On Government-Held Gas Station Stock

The government's 73,000 shares of Spur Distributing Co., a chain of 300 cut-rate gasoline stations in the East, went on the block this week. The shares—more than 55% of the outstanding stock—are being offered to the public by the Office of Alien Property. **OAP has just won a long series of legal battles with the German Opel family, which is seeking return of the property.** Bids will be taken up to Feb. 19, but after that Spur president and founder J. M. Houghland—who owns 42% of the company—has 15 days to match the highest bid. Houghland already has bid more than $5-million.

In another enemy property case, the U.S. accepted the high bid on its 63% of Karl Lieberknecht, Inc., Reading (Pa.) maker of industrial parts. The top offer of $2.76-million came from Haile Mines, Inc., New York City. Haile also made the high bid—a half-million less—that was rejected last November. The sale price is still below the $3-million top offered (and rejected) in the first public bidding for the stock in October, 1956.

• • •

Retirement Age Policy May Limit Job Tenure of Sears' New Chairman

Fowler B. McConnell, 63-year-old president of Sears, Roebuck & Co., has been tapped to fill the spot of chairman and chief executive officer that will be vacated in May by Theodore W. Houser. Charles H. Kellstadt, 61, vice-president in charge of the Southern Territory, is the nominee for the president's job.

McConnell will be little more than an interim appointment, if Houser's recent attempt to set 65 as the stepping-aside age for the job is successful.

Houser, who was 65 last September, said in his retirement announcement that "65 years should be a consistent retirement age for the chairman . . . I hope this will become the practice for Sears." The company requires directors to retire at 70, but the new provision does not affect present board members. All executives with the exception of the chairman must retire at 63.

Houser joined Sears 30 years ago. He became a director in 1939, vice-chairman in 1952, and chairman in 1954—succeeding Robert E. Wood, then 74, who still serves on the board.

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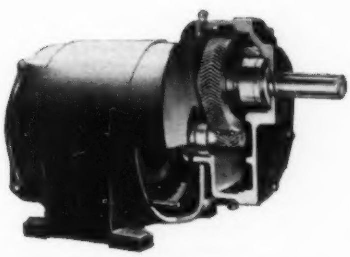

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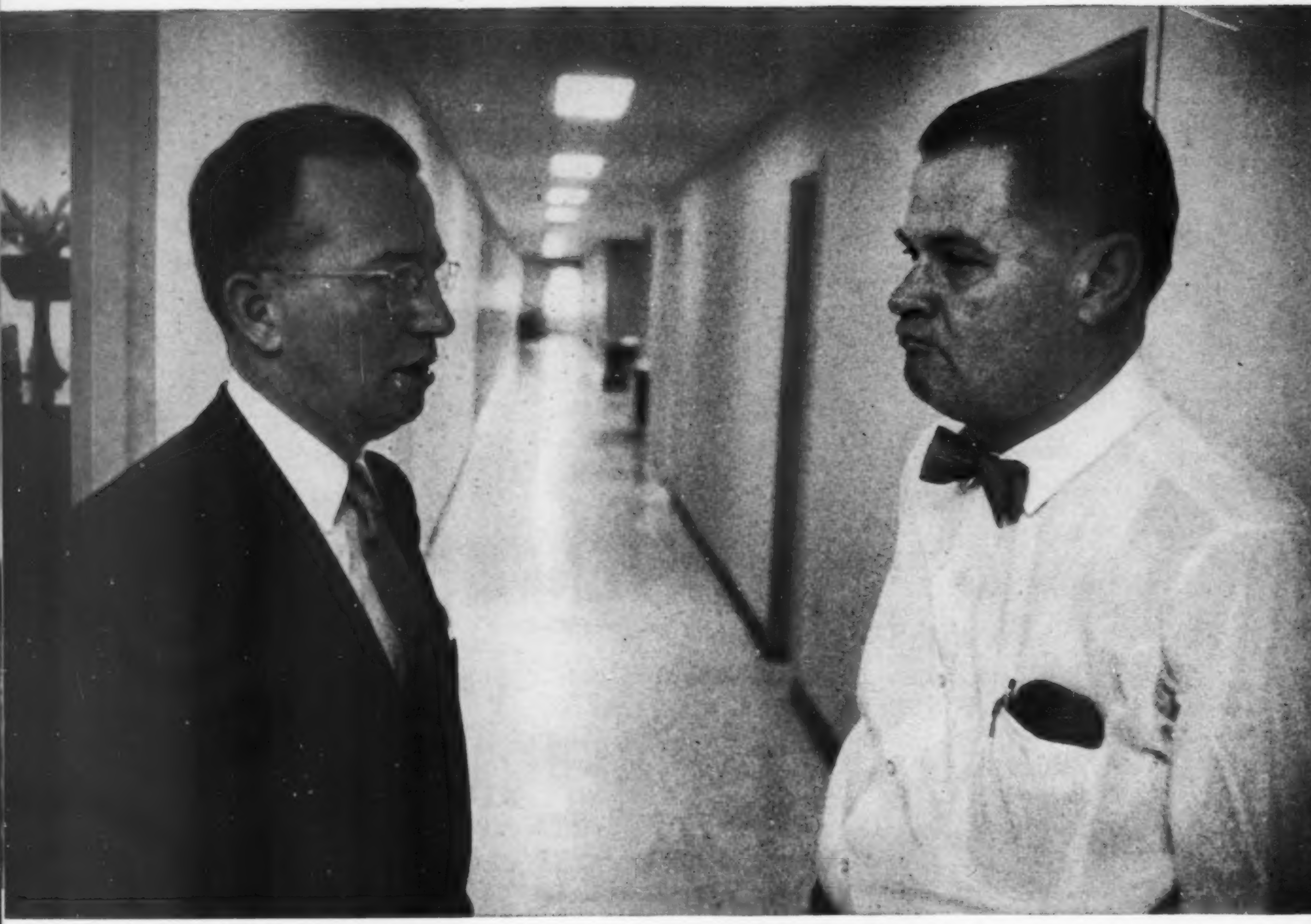


CHARLES W. PERELLE, president of American Bosch Arma, consults with Vice-Pres. V. C. Schorlemmer, one of his key aides.

Putting Arma Back on Its Feet

Too many smart engineers were running away with the company until Perelle modernized the production line and moved the research department closer to his own office.

When the Titan, the second of our intercontinental ballistic missiles, is tested this summer, few fingers will be crossed tighter than those of the men running American Bosch Arma Corp.

If Titan puts on a good performance, it will be a real feather for the company's Arma division, which makes the guidance system for the big missile (BW–Sep.14'57,p54). It will also be a feather for Pres. Charles W. Perelle (cover, above left), who in 1954 was called in to save the ailing company.

Arma's guidance project was under way when Perelle took over, but the company's pulse was flickering, due—according to "Doctor" Perelle—to lack of coordination between engineering, research, and the business office. Restoring the patient to health proved to be the toughest job of Perelle's career.

• **Two Invalids**—Since American Bosch Arma is almost two separate companies, Perelle actually faced two jobs. One was at Arma Corp., which is purely a military contractor. It delivers hardware in the form of gyros, air and sea fire control apparatus, and is deep in research and development for all three of the armed services.

The other job was at American Bosch Corp., which is almost entirely in civilian markets. Bosch concentrates on diesel injection pumps and electrical automotive parts—particularly wipers, voltage regulators, and small motors.

Between its divisions, ABA will rack up about $129-million in revenue and profits of almost $5-million for 1957. But this wasn't always so. In 1954, volume was $74-million, and the future of the divisions was bleak.

• **Joint Problems**—Arma was a research and development company and, as such, lived on its engineers. But the engineers had just about run away with the company. Between 1952 and 1954, Arma had had four changes in top management. To keep the company going, the engineering department—the strongest in the company—had in effect picked up the reins.

The department kept the company together but with such a calm disregard for delivery schedules, costs, and profits that Arma, a high-cost producer, was running three and four months late on major contracts. Also, it was almost out of cash, losing new business to the competition, and in danger of having much of its current business canceled.

Bosch was in equal though less ob-

vious trouble. It too was a high-cost producer, but hardly realized it. The company's internal controls were so lax that it was selling products at less than actual cost.

I. Perelle's Credentials

Perelle had already rejuvenated several other companies, but even before that he had earned a reputation as a wartime producer of aircraft. A graduate engineer with a master's degree in business, Perelle was a painter's helper at Boeing Aircraft Co. during depression year 1931. At the end of World War II, he was vice-president of operations for Convair. By 1954, he had:

- Pulled Gar Wood Industries, Inc., out of a $5-million loss for 1946 into a $2-million profit for 1948.
- Jacked up ACF-Brill Motors Co. from a 1949 loss of $2-million to a comfortable profit, then kept it there in the face of a declining market.
- Made over $1-million in stock options.

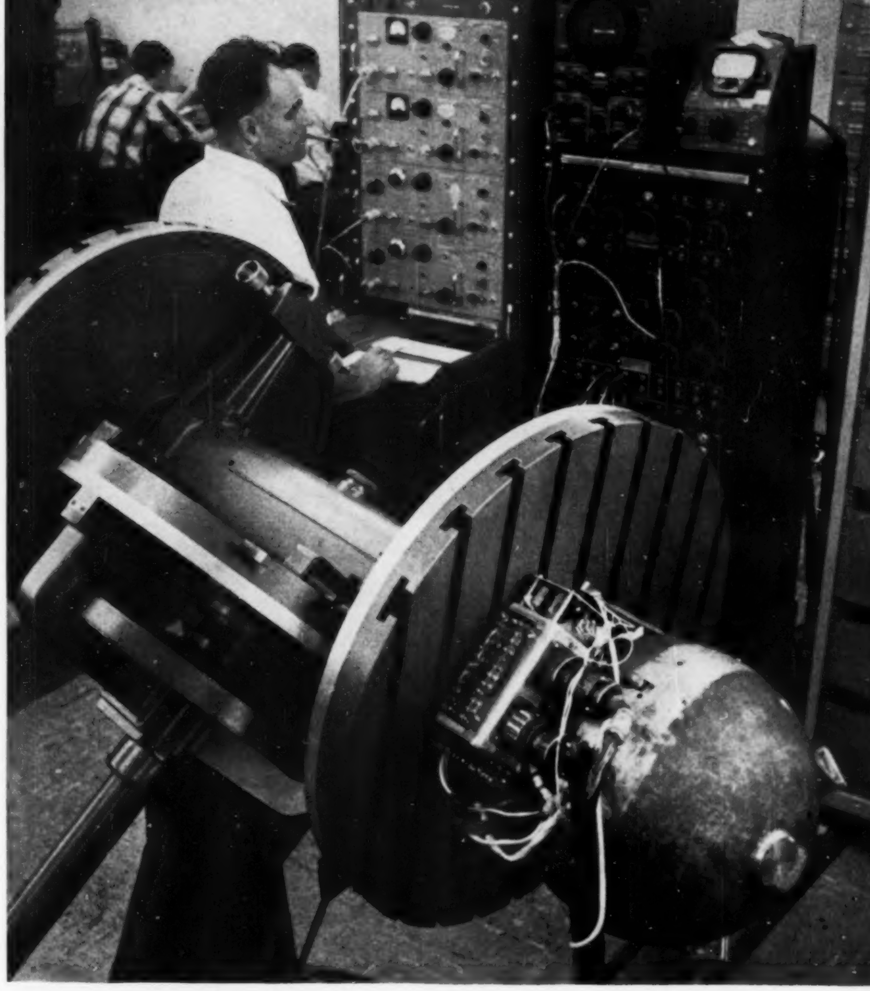
• **History**—Perelle got involved with ABA through Charles Allen, Jr., who was his boss at Brill. Allen, a New York investment banker, bought Brill in 1951, but prior to that he had led a group of investors that purchased Arma for $6.7-million in 1946, and American Bosch for $6.1-million in 1948.

At that time, both companies were highly profitable. Allen and his group controlled them through a holding company, but none of the financiers was an operating man. Actual management was left to the autonomous companies, and by 1954 the deterioration in Arma was becoming painfully obvious. That was when Allen brought in Perelle.

• **Strong Medicine**—Since then, Perelle has pared costs, altered methods, built up a corporate staff to feed information back and forth within the divisions, and put both companies comfortably in the black. Perelle, however, doesn't claim to be a superman. He's the first to admit that there are still leaks at both Arma and Bosch. But this makes the details of what he stepped into at ABA, how it got that way, how he doctored it, and where he stands now all the more realistic a study in corporate ailments and cures.

II. Crisis at Arma

What he walked into varied at both divisions. At Arma, he found that on sales of something less than $50-million, the company had to get special allowances ("overruns") that carried it $9-million over original contract prices. Its bread-and-butter contract for the design and delivery of B-52 tail turret fire control systems was more than three years behind schedule. The company



SPACE AGE Sideral tables test accuracy of gyros, one of the components of the guidance system American Bosch is making for the Titan missile.

PHASING OUT Fire control system for B-52s—Arma's old bread-and-butter line—was switched to a production line operation after Perelle took over.

was strapped for cash, and the Navy—once its principal customer—had just about written Arma off as a supplier.

Arma's operations were scattered in three plants—one in Brooklyn, and two at Garden City, Long Island. Each building operated with its own purchasing, production control, and factory management.

Half the operations were in the cramped six-story Brooklyn plant. Parts and production for the B-52 fire control systems were scattered all over. One contract for 100,000 gyro mechanisms was way late, and although the company had produced only a handful, it already was asking for overrun allowances.

• **Paradox**—What actually got the company into its troubles was that it had too many engineers with good ideas.

Arma was founded in 1918 by engineer-owners to make searchlights for the Navy. It soon became a research and development company specializing in gyro applications. But it stayed small. Contacts between engineers and management were casual. Products were expensive and almost hand-made, and engineering was high grade.

• **Trip-Up**—During World War II, when it didn't have to worry about costs, Arma grew to a peak volume of \$58-million. After the war, it shrank back to its old size, but stayed profitable. In 1947, it had a net profit of \$1¼-million on \$8-million worth of sales. It continued to thrive until 1951, when it got into trouble.

At the time of the Korean and post-Korean defense buildup, sales more than quadrupled—and the company tripped badly. It overexpanded facilities. Its cost accounting system fell apart. Contracts failed to materialize. It took a \$2.5-million loss in 1952, barely cleared a profit in 1953, and was heading downhill in 1954.

During this period, engineering saved, but at the same time nearly wrecked, the company. Engineering was a savior in that it claimed a technical excellence and backlog of experience that few competitors could rival. The contract for the B-52 fire control system, for instance, originally had been granted to another company. But that company couldn't produce a reliable product.

• **No Reality**—Arma could—and did—turn out reliable systems, but it was slow. That was because, at a time when Arma was trying to do a \$50-million-a-year business, its engineers were acting much as they had when the company was an \$8-million R&D contractor. And management wasn't savvy enough to do anything about it.

Engineering sections operated like small independent businesses. They thought nothing of committing the company to a change in a part, but might forget to demand an increase in price, or to take into account the effects this might have on delivery schedules. They made product changes on the floor, any form of assembly line production was unheard of, and costs were inconsistent. So was effective coordination with such nuisance departments as accounting and purchasing. For instance, engineers would crate and ship back to vendors expensive equipment that arrived in a damaged condition. This was meant to cut red tape—until accounting got a surprise repair bill.

These problems fed on themselves for a while, and eventually turned on the company. With costs high and delivery erratic, Arma began to lose business. In fact, 30 days after Perelle took over, Boeing canceled its contract for the B-52 fire control systems. Perelle got it back—but it took a trip to Seattle plus some binding promises.

III. In the Other Shop

Meanwhile, things were anything but smooth at American Bosch.

This division, an offspring of Robert Bosch of Germany, was a one-time member of a cartel. It owned important patents, especially in its diesel pump business, and up to that time, had never had to face up to much competition.

By 1955, however, the competitive picture was changing, and Bosch, it turned out, was a very high-cost producer. This was partly because its equipment was ancient—nothing new had been bought for 15 years. About 225 of the 1,200 machines in its Springfield plant were over 25 years old, and in 1954 when Bosch put up a "competitive" plant for auto parts in Columbus, Miss., it filled it with old equipment.

• **Pricing System**—There were a number of other problems, too. Bosch had no production, costing, or pricing control to speak of. The plant was a giant job order shop. Scheduling was erratic, orders got lost. Detail costing didn't exist. Department managers, and even plant managers, had no specific idea of what it cost to turn out a particular line of pumps.

As a result, pricing was a matter of guess and whimsy. The company president personally set the sale price on each product. Old hands claim that he would look the parts over, ask how much they weighed, glance at the ceiling, then come up with a figure. Perelle later found that one major pump line had been selling at \$25 below cost since the year it was introduced.

Nor was there any management autonomy in the company. Almost all but the most routine decisions were either bucked upstairs or postponed. By 1955, when the farm tractor business—for which Bosch supplied pumps—started to slip, so did Bosch. It was soon loaded up with inventory, and moving toward the red.

These were the two situations Perelle walked into in 1954.

IV. Recovery Programs

The hottest fires were raging at Arma, and it was there that he concentrated. His first step was to merge Arma and Bosch into one company, American Bosch Arma Corp. This gave Arma use of Bosch's credit, a better credit rating with its consequent lower borrowing costs. This, combined with the policing of accounts receivable, led to a \$100,000 yearly saving in interest payments.

Perelle then moved Arma out of its outmoded plant in Brooklyn to the more modern facilities on Long Island.

The next step was to put the company back on schedule with major contracts. Perelle achieved this by barring change-addicted engineers from the plant, needling production; setting up assembly line for volume work.

Perelle moved into Arma's executive offices in April, 1954, with two veteran aids—Mac Finley, his special assistant, and Clifford Sharpe, his operations vice-president. (Eventually over a dozen managers who had worked for Perelle previously, and as many old-line Arma and Bosch men stepped into newly created staff jobs.)

• **Strategy**—Perelle's strategy was two-fold. First, as a stranger stepping into a tough position, he needed capable aides to dig up information and see that orders were followed through. Second, by setting up staff services, he wanted to swing engineering back into design, and coordinate that end of the job with production and management.

To help him do this job, Perelle has set up a series of staff groups at the corporate level. Under or alongside the staffs of his two key aides—Sharpe for production and V. C. Schorlemmer (picture, page 84) for administration—he set up new public relations, employee relations, sales and contracts staffs, and expanded the accounting functions.

On the division level, he brought in new—or revised old—production control, industrial engineering, purchasing, and contracts sections.

During this period, Arma also trimmed its payroll, from 4,800 employees in January, 1954, to 3,000 in August, 1955.

• **Union Trouble**—Finally, in 1955, Perelle took a three-month strike "to clear the air with the union."

"The union in some cases was virtually in charge of the plant," says Perelle, because written into the labor contract was a sleeper called "the past precedent clause." Under its wording, any activities that had been permitted in the past were sanctioned for all.

For example, to expedite work with

ADVISORY COMMITTEE manned by company researchers, guides search for new contracts. Perelle is at head of table, facing.

Boeing, Arma sent 10 engineers to Seattle. Then, as the operation grew, it hired another 100 in the Seattle area. When vacation came around, the company provided per diem vacations in New York for the 10 men it had shipped out on temporary duty. Then, to its fiscal horror, Arma found that it was obliged to provide identical per diem vacations in New York for the 100 other men hired in Seattle.

Perelle took the strike to wipe out this sort of thing—and won. Since, in a precedent-setting contract signed last month, Arma and its unions amicably signed agreements covering raises and conditions for the next three years.

• **Back to Bosch**—By late 1954, the biggest fires at Arma had been either squelched or banked, and Perelle moved in on the Bosch division, which had started to slip.

Late in 1955, Perelle eased an old-line Bosch man out of the division's top job, and for six months, Sharpe, his right-hand man, ran Bosch. During this period, Perelle, among other things:

- Enforced job scheduling and established costs.
- Set up assembly line operations.
- Established new production control, set up an industrial engineering section, improved purchasing techniques, and new accounting staffs.
- Trimmed inventory from $9-million to $5-million.
- Cut operating costs by more than $1-million.

• **Patients' Charts**—At this point, "Doctor" Perelle feels that his therapy is working. Both companies began to perk up. At the end of 1956, Arma and Bosch had combined sales of $122-million. Bosch contributed over 25% of this volume, plus more than its share of the $4.6-million profit, and carried its full load of profit for 1957, too.

• **Best Bet**—Perelle is equally optimistic for 1958. Looking to the immediate future, he is stacking most of his chips on missile guidance, a field that Arma gravitated to very naturally.

The company has always been prominent in gyro design, and from its beginning had conducted research in that field for the armed forces. It had also built computers for fire control systems. Even before 1954, Arma engineers decided that they could make gyros and computers small enough to direct a long-range missile. The current development project for the Titan is the result of that decision. Now, their system is reportedly being considered for the Atlas, and has possibilities for intermediate-range missiles as well.

The key attraction to Arma's guidance system is that it is purely inertial, designed for accuracy at 5,000 miles, and lighter than others of its type. Since a purely inertial system doesn't use radio, radar, or star fixes to determine its position, but depends rather on surges of acceleration in the moving missile to direct it, it can't be jammed by enemy electronics. Then, since a system that's good for 5,000 miles would be even more accurate at, say, 1,500 miles, and since Arma's system is reportedly lighter than current IRBM inertial systems, it could be used for medium-range missiles—if it proves out.

• **Company Policy**—In the field of research, Perelle looks even farther ahead. He recently set up a special Technical Advisory Committee manned by top researchers. In this group of six are the computer, gyro, general physics, and engineering staffers who evolved much of the Titan's guidance system. These men pass on the soundness of suggested projects and fields that might interest Arma for the future—satellite programs, space rocket guidance, and antimissile work, for example.

There are still a few loose ends at Arma, Perelle says, and this committee will be useful in policing and guiding one of them—the company's search for new contracts. Arma, says Perelle, has tended to bid erratically both as to price and type of project. "Some projects we should never have been in," he says, and engineers down the line agree. "All we seem to do is spend our time preparing bids we don't get," says one engineer.

With such holes plugged, Perelle considers that Arma will be in solid shape for whatever comes along. And the Bosch division, he says, is now strong enough to weather tests that at one time might have crippled it permanently. With the auto industry limping, Bosch anticipates a rugged first half for 1958, but expects to come through on an even keel. END

WALL STREETERS oversubscribed first basic industry course given by a single firm.

Security Analysts Get Industry Primer

ABSORBED analysts listen to Socony experts tell what makes the oil industry tick.

Corporations are rarely shy about exposing their virtues to security analysts. The analysts, after all, are among the most influential men in the financial world, for the weight their opinions carry in the making of investment decisions. And it's a Wall Street tradition for corporate brass to lunch with a group of analysts and then stage a briefing—sometimes elaborate—on their company's policies and pocketbook (BW—Jun.30'56,p43).

Some companies have entertained on a grander scale. The Northern Pacific Ry., for instance, once squired a troop of East Coast analysts on a week-long rail tour of the Northwest just before it floated a $52-million bond issue (BW—Sep.25'54,p54).

Now more and more concerns are going one step farther with their attentions: They are offering the analysts a quick course in the fundamentals of their industry, for use as a basis in evaluating the company's potential. This way, it's possible to bring the security scrutinizers up to the minute on industries with complicated technologies or rapidly changing product lines.

• **Innovators**—The pioneer among these courses, dealing with the oil industry, is under the joint auspices of Socony Mobil Oil Co. and the education committee of the New York Society of Security Analysts. On five successive Thursday afternoons, a group of analysts gathers informally for coffee, then files into Socony's training center. There they sit attentively with notebooks, pencils, and class outlines (pictures) for sessions on such subjects as how an income statement treats the abandonment of an oil well—or what are the three types of crude (paraffinic, intermediate, and naphthenic). They view films and slides and peruse geological strata charts, tanker plans, mineral right leases, and the more familiar balance sheets.

The main mover behind the innovation is Donald H. Randell of Walston & Co., who was a geologist himself before he came to Wall Street. A member of the society's education committee, he teaches a course in the oil industry at the New York Institute of Finance. In his view, orientation is especially important for oils because it takes so much specialized knowledge to appraise the industry.

Randell and his committee got together with Socony executives and hatched a comprehensive curriculum—covering every phase of the oil business, from exploration and acquiring land to manufacturing and research. Socony middle-management men were delegated to give the lessons; lecture outlines and audio-visual aids were prepared. In dry runs, the "instructors" polished their talks. Throughout, the aim was to give an industrywide view—and to mention Socony only in illustrating the lectures by examples from experience. As it turned out, they cited as many Socony failures, such as striking a dry hole, as successes.

• **Box-Office Smash**—Last spring, the first test course was given to a "student

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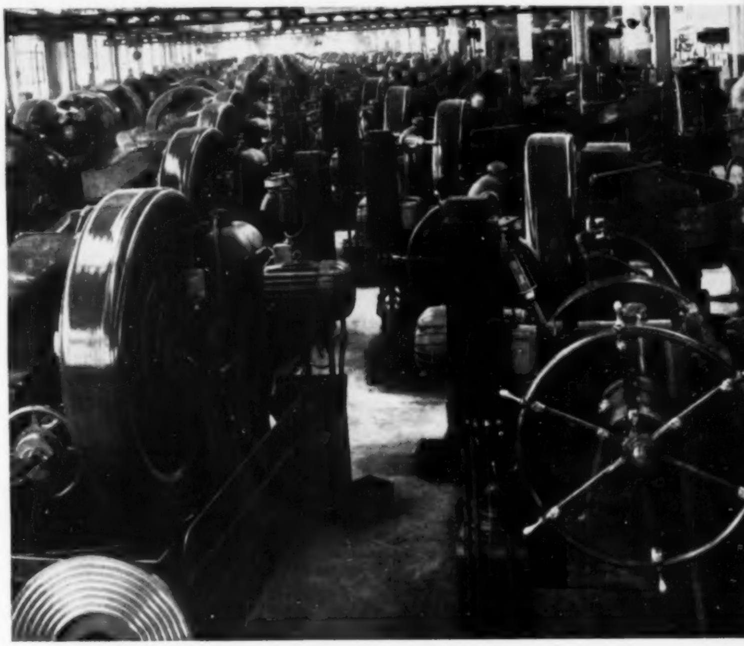

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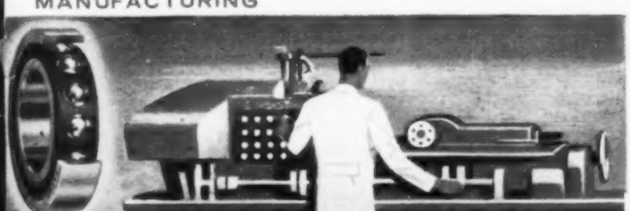

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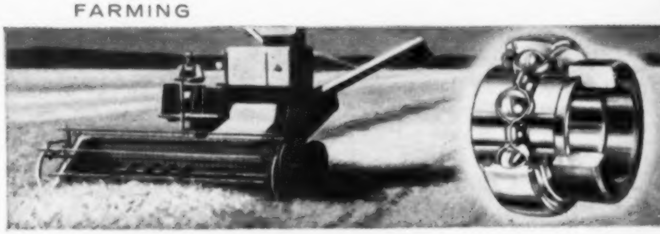

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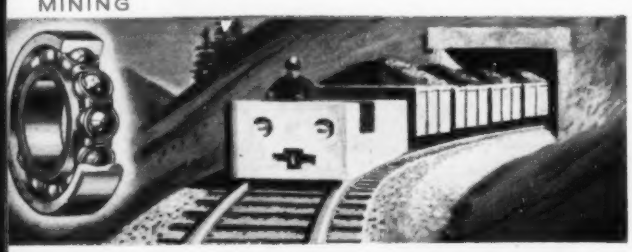

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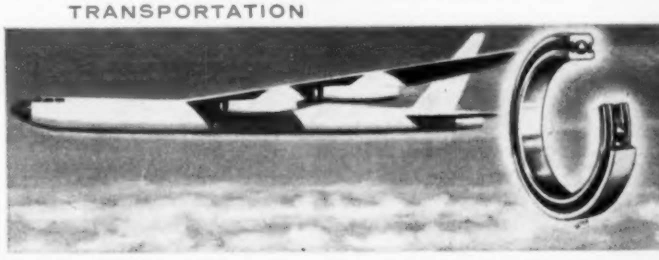

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body" of practicing Wall Street oil analysts. Most reacted enthusiastically, although some complained it was too fundamental. This led Socony and the society to label it a "beginners'" course. Randell insists, however, that any financial man, no matter how experienced, can benefit.

When the first invitations to the formal course went out to members of the society last October, the response stunned Socony: Almost 400 security analysts wanted to come. The company limited enrollment to 89 and admitted only one person from a firm—but promised to repeat the course as many times as necessary to satisfy the demand. Socony thought some of the applicants it turned away might decide later not to bother. But instead the draw has been getting bigger and bigger. Many of the latest applicants are men with a lot of experience analyzing oil stocks, now that word is around that the "beginners'" course isn't an oversimplification.

Currently, the company is giving the course for the second time, and it isn't sure how many more repetitions will be needed. Whenever the New York run ends, Socony plans to put the course on the road, by offering the lecture outlines to its subsidiaries and encouraging them to stage the same show for financial experts in their areas. Randell even hopes the lectures will eventually be printed as a loose-leaf source book on the industry, to be updated with new developments.

• **Similar Courses**—Other companies are now planning similar programs. For example, Daystrom, Inc., an electronics outfit in Murray Hill, N. J., was already devising an introductory course on its industry before it heard about Socony's project. Now it has coordinated its plans with the society, and the first of four two-hour briefings will be held in mid-April, it hopes. This course will stress the technical side of electronics, beginning with basic electricity and simple motors and going on to electronics, nucleonics, and even missile guidance and space communications. The company expects some 500 applications; it can handle 80 to 100 analysts.

The society is also working with Allied Chemical & Dye Corp. on a course to educate the analysts on the chemical industry. And there have been at least expressions of interest from U. S. Steel and W. R. Grace & Co.

In every case, the companies have essentially the same aim. John F. Seal, Socony vice-president for finance, summed it up to the first oils class: "Anything we can do to help you understand the oil business and evaluate the industry's prospects will ultimately make both your job and ours simpler." END

The "Uncle" in Uncle Sam

Economists' report says federal credit programs have created a "second financial system," which partly competes with and partly supplements private finance.

The growth of federal credit programs has produced "a second financial system" that operates "in part competitively with private finance and in part supporting and complementing the private financial system." This federal financial system is not yet completely geared to a national credit policy, and so presents some special problems that must be tackled.

These are the major findings in a study, titled Federal Lending and Loan Insurance, published by the National Bureau of Economic Research. It provides the first comprehensive analysis of the government's lending and loan insurance operations, and represents six years of work by a trio of economists—Raymond J. Saulnier, now chairman of the President's Council of Economic Advisers, Harold G. Halcrow of the University of Illinois, and Neil H. Jacoby of the University of California at Los Angeles.

• **Peak in 1930s**—Federal lending and loan insurance, according to the study, reached a cumulative total of $138.7-billion from 1917 to 1953, with some $75-billion in direct loans and $60-billion in government guarantees or insurance. But the most rapid growth came in the early 1930s. Since then, federal credit programs "have tended, in the aggregate, to expand irrespective of general economic conditions."

The increases in federal credit have not been spread equally; more has gone to agriculture and housing than to business. The report says that about 20% of total farm mortgage credit in 1953 was held by government agencies—the Federal Land Banks, the Federal Farm Mortgage Corp., and the Farmers Home Administration. In addition, federal programs accounted for about 27% of short-term farm debt and played a major part in financing farmer cooperatives.

On the housing front, the study says that more than 40% of all outstanding mortgage debt in 1953 consisted of loans made under federal guarantee. This huge amount was a major influence on the entire mortgage market.

There is no comparable influence on business lending. Moreover, the bulk of the funds earmarked for business has gone to small- or medium-sized companies through government agencies that operated in collaboration with private financial institutions.

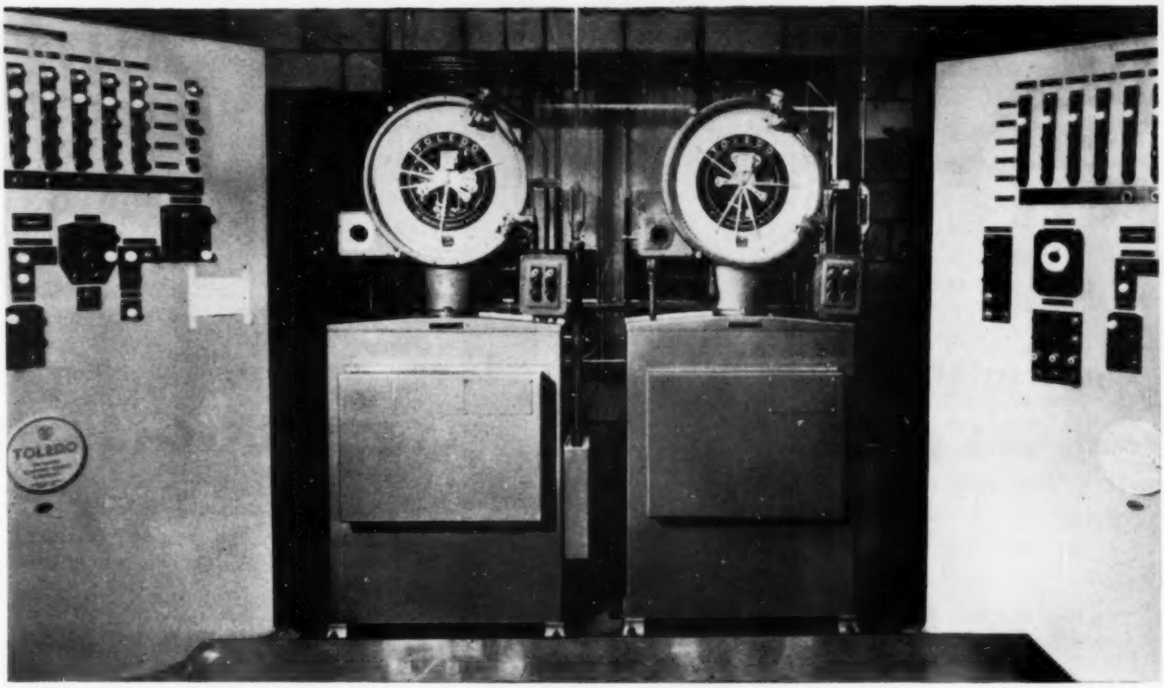
The important role that government has played as a lender has not been coordinated in any real way, says the report. Nor have government loans been used to promote stability. On the contrary, since World War II, federal lending "contributed appreciably to the postwar inflationary boom."

• **Coordination**—This criticism suggests that the aims of the government's lending activities must be coordinated. At the same time, the report implies that these lending programs must also be coordinated with the governments' fiscal policies and credit policies of the Federal Reserve. It is critical of the Fed itself, making clear that "the record reflects defects in federal monetary policies as well as inadequacies in the management of the credit programs of federal agencies."

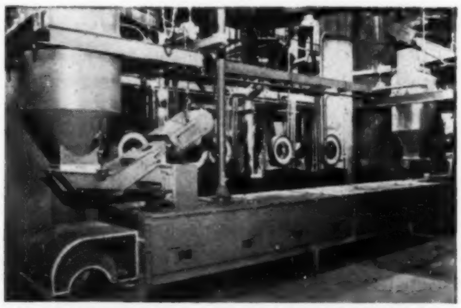
Although the report is critical of some programs and of the general lack of coordination, it leaves no doubt that the government's lending activities did bolster private financial institutions and were of great benefit during the Depression. The large scale use of federal funds was responsible for changing many private practices—including the increased use of term loans and the introduction on long-term export credit—and, in general, resulted in greater uniformity in lending rates.

• **Batting Average**—Moreover, the government's losses were not excessive considering the vast amount of credit it provided and the new lending procedures it established. The one area in which it chalked up considerable losses was in lending to businesses and farms that could not get any private financing and where no credit standards were set.

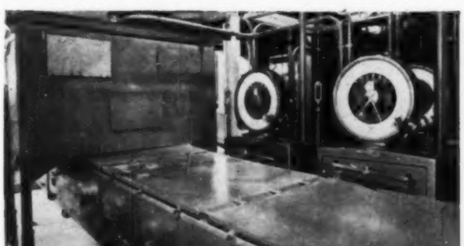
Yet the vast majority of the government's programs proved to be self-supporting without being attractive enough for private finance. As the report sums up: "It is found that most of the programs have been self-supporting, at least from a long-range point of view. An element of subsidy has been present only in those programs which served a particular class of borrower such as low-income farmers, veterans, or small business firms. On the other hand it is clear that no program, except possibly that of the Export-Import Bank, has realized profits at a level which would be considered satisfactory by the conventional standards of the private financial system."



TOLEDOS control glass batching systems at Ford Motor Company's Nashville Plant



Two scale hoppers load conveyor with ingredients for plate glass. In background, a conveyor for sheet glass batch.



These Toledos are extra sensitive to weigh small quantities of ingredients such as carbon and iron oxide.

Automatic batching—using a Toledo system of weight control—helps the Ford Motor Company keep a watchful eye on quality and costs in production of glass at their Nashville plant.

All scales, hopper gates and feeder controls are interlocked and sequenced through the Toledo control panels shown in the photo above. Signal lights on the panels show progress of each batch cycle. The scale heads in the center provide a weight check for each complete batch before mixing.

On the floor above the control room, batch ingredients—soda ash, sand, carbon and iron oxide, for instance, are weighed and discharged onto conveyors by Toledo Hopper Scales. After mixing, another Toledo weighs out a preset amount of batch for the furnace. It's a continuous process calling for continuous control with speed and accuracy.

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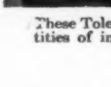
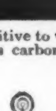
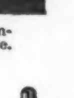
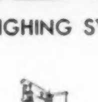
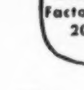

FLOOR AND TRUCK SCALES


BENCH AND PORTABLE SCALES


OVER-UNDER SCALES


WEIGHT PRINTING


OVERHEAD TRACK SCALES


COUNTING SCALES

INTERNATIONAL OUTLOOK

A BUSINESS WEEK SERVICE

It now looks as though Moscow may be talking the West into a summit meeting. It might even be held by fall.

There's no certainty, not by a long shot. But both parties in Britain are leaning that way; and in Washington the mood seems to be changing a little.

To date, the Administration hasn't moved very far—only to play down a foreign ministers' meeting as an essential preliminary. Washington's idea seems to be this: If soundings by Western ambassadors in Moscow give promise of anything in the way of agreement, Pres. Eisenhower may agree to summit talks.

A summit meeting, if it is held, probably won't get anywhere in particular—at best, some nibbling at the disarmament deadlock. That, of course, might ease world tensions a bit. But, as the Geneva summit meeting of 1955 proved, a temporary easing of tension isn't necessarily good for the West. Last time it led to a lot of complacency.

Khrushchev wants a relaxation of Western defense efforts. And, of course, he would like to enhance his prestige at home and abroad.

For Khrushchev to offer any real settlements—say, on the German problem—just doesn't seem to be in the cards. And you can bet that Eisenhower and Secy. of State Dulles won't go to the summit to divide up the Middle East with Moscow.

In softening its stand on top level talks, Washington is bending to political pressures within the West. Unless there is another try for agreement, no NATO government (except for Turkey) can afford—politically—to push ahead with plans to establish intermediate-range missile bases.

Take the Conservative government in Britain. Prime Minister Macmillan expects no more than Dulles does out of top level talks. But if he wants Britain to have missile bases, and the Conservatives to stay in office, he must be ready to approve a summit meeting.

—•—

At midweek, it looked as though Dulles could claim some real achievements at the Baghdad Pact meeting in Ankara (BW—Jan.25'58,p127). As a buffer against Soviet aggression, the "northern tier" alliance (Turkey, Iraq, Iran, and Pakistan) looks pretty solid.

But back of the tier in the Arab world, almost everything is fluid, and potentially dangerous. Even Iraq, the one Arab member of the Baghdad Pact, is embroiled in the Arab-Israel feud.

The Egyptian-Syrian federation plan, which is being rushed to offset the Ankara meeting, won't make the Middle East any more stable. In pushing this scheme, Egyptian Pres. Nasser hopes to give Pan-Arabism a new lease on life.

To mean anything, though, an Egyptian-Syrian federation must include Jordan, which separates the other two geographically. But a move in this direction by Nasser could bring another Arab-Israel war.

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Oil rivalry in the Middle East seems to be breaking the 50-50 line. This formula—launched first in Venezuela, then in Saudi Arabia by the big U.S.

BUSINESS WEEK
FEB. 1, 1958

oil companies—has been breached by deals between (1) Italy's government oil company (ENI) and Iran; and (2) Japanese oil interests and Saudi Arabia.

Now the Hunt Oil Co. of Dallas reportedly has offered to pay the ruler of Kuwait 60% of any profits from an offshore drilling concession. And, so the rumor goes, Hunt Oil is offering a 20% participation to a Kuwait company.

—•—

Chrysler Corp. is looking for an auto plant in Western Europe, has been for some time. Chrysler wants in on the growing European car market. It may also want a small car for the U. S. market.

Chrysler officials have been talking with several British auto producers and have taken a careful look at the Coventry plant of Standard Motors. There have been talks, too, with West German manufacturers.

—•—

Khrushchev, a gambler if nothing else, has launched a basic reorganization of Soviet agriculture—right on the heels of his industrial reform (BW—Apr.6'57,p48). The Soviet party boss is letting the collective farms have their own tractors, harvesters, and other heavy equipment. Ever since Stalin collectivized farms in the early 1930s, the state-run MTS (machine and tractor stations) have owned and controlled the equipment, rented it out to the collectives. This way, the Communist Party could rule the countryside with a firm hand.

The new plan fits into the decentralization trend of the Khrushchev regime. **But the party boss undoubtedly has these specific goals:**

• To save administrative manpower, and in the process clean out any opposition left from Malenkov's days.

• To give the collective farms new incentives to raise their output. Because of last year's crop failures in the virgin lands, Khrushchev desperately needs to give Soviet agriculture a shot in the arm.

—•—

Latin America is running the gamut of political and economic crises:

• Venezuela swept Dictator Perez Jimenez from power in a bloody revolution (page 79). **A five-man junta, headed by Rear Adm. Wolfgang Larrazabal, seems to be in control now.** It hopes to hold popular elections next year. Meanwhile, U. S. oil and other business interests are feeling the sting of anti-foreign political criticism.

• **Guatemala's new president will probably be Gen. Ydigoras,** a right-winger. He failed to win a 51% majority of votes in the national election. But rival Cruz Salazar evidently has agreed to back Ydigoras.

• **Cuba's Pres. Batista has eased up on press censorship and political freedoms.** But rebel leader Fidel Castro is still attacking Batista with his hit-and-run guerilla campaign in the easternmost provinces; and another rebel group has just opened a "second front" in the center of the island.

• **Argentina heads toward Feb. 23 elections—the first since Dictator Peron's downfall—with over 400,000 workers on strike.** Political leaders are railing against U. S. and foreign capital. A big question mark is the strength of Peron's influence on the elections.

• **Brazil is in the throes of an economic crisis.** The cruzeiro has sunk to an all-time low on the free market—roughly 100 to the dollar. Unsold coffee stocks are soaring. Heavy imports of equipment for Brazil's industrial expansion are continuing.

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FTC's Right of Discretion Upheld In Prosecuting Trade Violators

The Supreme Court ruled this week that it's up to the Federal Trade Commission to decide whether to go after one company at a time to stop illegal trade practices or to tackle a whole industry at once. The ruling was made in two test cases on which lower courts had split.

The automobile parts manufacturers involved—Moog Industries, Inc. and C. E. Niehoff & Co.—asked the courts to hold up FTC orders against their volume discount plans until all competitors had been ordered to stop using the same pricing system. Moog Industries won its case in the lower court on arguments it would suffer competitive disadvantage under the FTC order.

But in a unanimous ruling, **the Supreme Court upheld FTC's "special competence" to determine whether competition might be restricted by postponing an order against violations of the law.** The courts should not upset FTC's "discretionary determination" of the issue unless there has been a "patent abuse of discretion," the high court ruled.

• • •

Brazil Gets First U.S. Grant Under Atoms-for-Peace Program

The first cash grant under the U.S. atoms-for-peace program, first proposed by Pres. Eisenhower in 1955, has been delivered to Brazil. The country received a check for $350,000 for a 5,000-kw. reactor, which went critical last September at Sao Paulo University.

Similar requests for assistance have been approved by the U.S. Atomic Energy Commission for Denmark, Japan, Netherlands, Portugal, Spain, and Venezuela. The money is made available upon certification of completion of the project. The U.S. pays one half of the cost of the research reactor up to a limit of $350,000.

The Brazilian pool-type reactor will be used by the university for training and research purposes.

• • •

Pacific Missile Range Authorized For Air Force, Navy Launchings

The Navy has been authorized to set up range instrumentation for a new Pacific Missile Range (PMR) for launching both Air Force and Navy long-range ballistic missiles. **The range will extend from the Pt. Mugu-Lompoc (Cal.) area, some 50 mi. northwest of Los Angeles, out into the Pacific.** The range's first stage will cover 1,500 mi. falling short of Hawaii; the second stage will run to 5,500 mi., with the impact area near the Midway Islands. Costs will total about $150-million.

The new range will be used to train Navy launching crews on the Polaris IRBM and Air Force squadrons on the Thor and Jupiter IRBMs and Atlas ICBM. The Air Force's big test range at Cape Canaveral, Fla., eventually will be restricted to research and development flights.

At PMR, the Air Force launchings will be from Camp Cooke, Lompoc, Cal., now being built as an IRBM-ICBM training center. The Navy's missiles will be fired from the nearby Pt. Mugu test center, which now is limited to shorter-range missile launchings.

• • •

Companies Finagling With Tax Money Of Employees Face Harsher Treatment

Congress has passed a law allowing Treasury agents to get tougher with companies that play a little loose with tax money they withhold from employees' pay.

Up to now, employers who didn't turn this money over to the Treasury couldn't be convicted of misdoing unless the Treasury proved "willful failure" in a court case. Government lawyers have found that the courts' interpretation of "willful failure" has weakened their enforcement authority—to the point where some $300-million of income and social security funds taken from employees are now outstanding.

The new law eliminates the "willful failure" provision. Internal Revenue officials will notify an employer who is delinquent and at the same time order him to deposit his collections in a special trust account from then on. An employer who fails to comply would be guilty of a misdemeanor and liable to a $5,000 fine and a year in jail.

• • •

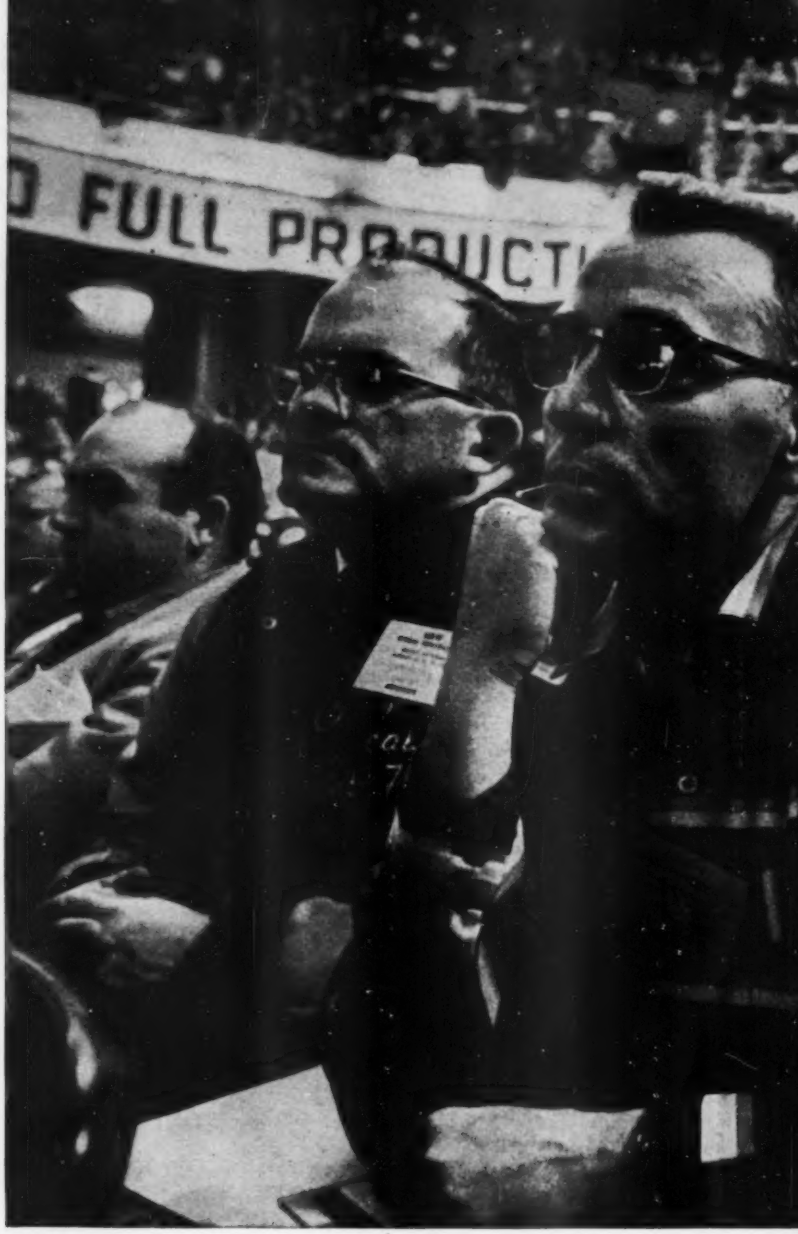
Major Shift in Defense Stockpiling Asked by ODM Citizens' Unit

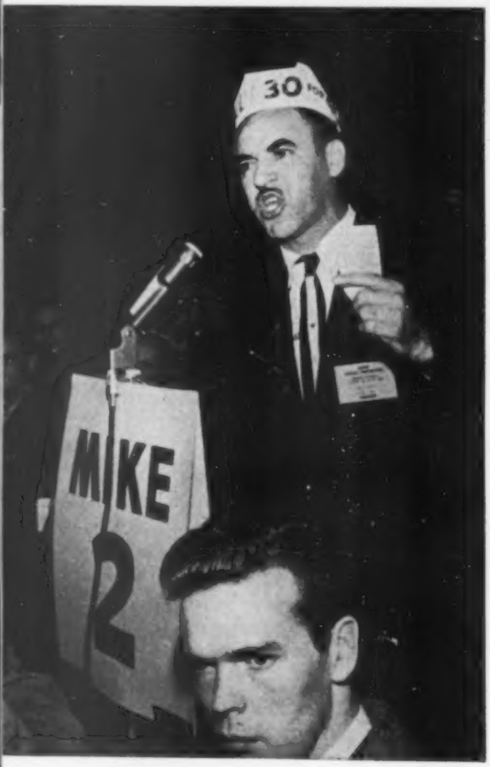
An Office of Defense Mobilization Citizens' Advisory Committee urges a shift in emphasis in the nation's defense stockpiling programs from raw materials such as metals and minerals to finished equipment and perishable supplies needed for survival in case of nuclear attack.

The group, headed by Chicago banker Holman Pettibone, made these specific recommendations:

- New state and local plans—aided where necessary by the federal government—to procure and encourage the crash production of such items as food, pure water, medical supplies, construction and transportation equipment.
- Concentration of military stockpiles on items needed for a short nuclear war, with greater flexibility to unload unneeded materials. (The report, however, advised against disposal of existing stocks of metals and minerals because of an adverse effect on market conditions.)
- Over-all coordination of stockpiling by military and civil defense agencies.

Walter Reuther sells his profit-sharing idea to the Auto Workers' convention in Detroit, but...





Delegate Ernie Mazey protests plan, insists that shorter work week be basis for new demands.

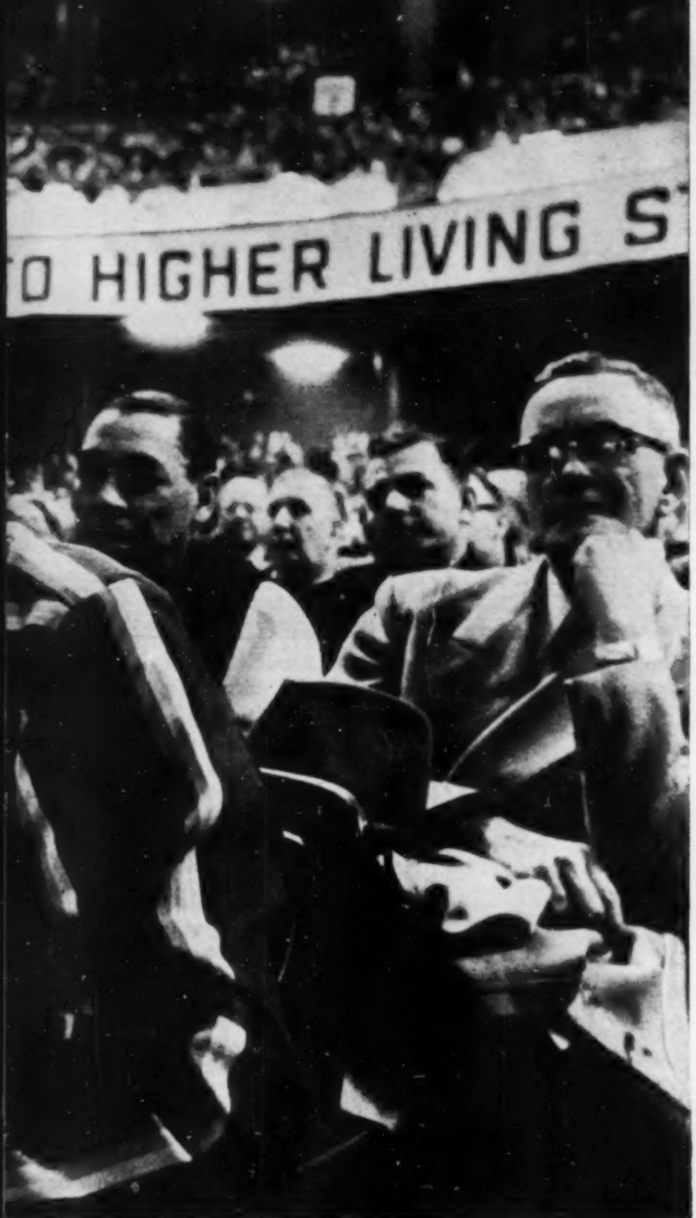
UAW: Profit-Sharing

The pictures on these pages are glimpses of Walter Reuther and his United Auto Workers in the throes of a change in their "tactical approach" to getting what they want from auto companies in bargaining this spring.

What the UAW will ask for—and what delegates approved overwhelmingly at a special convention last week —are "basic economic gains" including an average wage boost of at least 10¢ an hour and a share of the profits of the industry's most prosperous members. What it really wants may be something entirely different, something it has wanted all along.

Reuther and his close aides in UAW abruptly abandoned their shorter work week goal two weeks ago, when bargaining objectives for 1958 were roughed out (BW—Jan.18'58,p127). At the time, Reuther cited the "critical period" in international relations and the national economy as reasons for "temporary deferment" of bargaining for reduced hours.

Nevertheless, it was apparent at last week's convention that UAW still has its sights set on a shorter work week with no cut in pay. The issue may not be raised as a formal bargaining demand, but it is almost certain to be



ADVISERS Secy.-Treas. Emil Mazey (left) and Jack Conway (right) huddle with Reuther. Their job was to justify the administration's switch in tactics.

HEADLINES advocating a 30-hour work week with 40-hour pay catch delegate's eye. To many at the Auto Workers' convention, this was the more tangible issue.

RANK-AND-FILE members listen to hot debates over two different approaches to a major union goal.

or a Shorter Work Week?

brought up—perhaps insistently—by the union this year.

Reuther and other UAW spokesmen made this clear as many auto unionists showed a still-burning desire for reduced hours in convention debate. The administration speakers, defending the surprise switch from a shorter work week to profit-sharing, repeatedly referred to the profits plan as "a new tactical approach," and a better way of winning reduced hours.

• **Issues Linked**—In this way, Reuther and his allies linked the profit-sharing and shorter work week issues. However, it's doubtful that many of the delegates understood just how the linking would work. The assurances given were enough to hold opposition to sidetracking a direct demand for reduced hours to a half-hearted minimum (by Reuther's tally, to 10% of the delegates in Detroit's Masonic Temple).

Very likely, more than the Reuther reassurances were behind the strong support given the UAW bargaining program. In convention hall corridors and in hotel lobbies, delegates showed far more interest in victory in 1958 on the union's basic economic demands than on more spectacular and pioneering issues. They were money hungry. Many complained that raises are needed to offset lost overtime and, more recently, three-day and four-day weeks.

• **Militant—for Raises**—The militance delegates showed was more for higher pay than for shared profits that would, at most, put more money into the pockets of a part of UAW's members.

Even the most vocal advocates of a shorter work week to give workers more leisure and to spread jobs seemed to be thinking of something else—it was the income-boosting feature of the demand they favored.

Although auto unionists talked tough, it appears likely that if UAW is to mus-

DELEGATES vie for a chance to express their opinions. Reuther sold his profit-

ter support necessary for a strike, it must do so by persuading members that there are economic gains to be won—not just principles to be established.

I. A Lively Spook

If UAW's international executive board was attempting to lay the shorter work week to rest two weeks ago, when it proposed its profit-sharing plan, the board found it a lively phantom. Before the convention ended, it was plain that the issue wasn't dead at all. The "phantom" was a live matter—and will continue to be.

• **Bid for Overtime**—Regardless of whether it's approached directly or by the "new tactical approach" of profit-sharing, the shorter work week demand is simply a higher-pay gimmick at this time. It's a bid for premium wages for a few hours of overtime each week.

UAW thinkers have never gone beyond a tentative demand for a progressive cut in the work week, beginning with a 38-hour week for 1958 and a 36-hour week for 1959 and 1960, dropping gradually beyond that.

UAW, of course, says the cut must be made "without any reduction from present take-home pay for a 40-hour week." Its strategists do not believe that auto companies could or would trim their schedules by two hours in 1958, four in the following two years. They are convinced that overtime would be paid for two hours this year and four beginning in 1959.

• **Source: Profits**—It's easy to fit such a concept of a shorter work week into the profit-sharing demand that has been

sharing plan to the Auto Workers, but the shorter work week is far from a dead issue.

made an integral part of UAW's bargaining programs. In asking for 25% of corporate profits in excess of 10% of "net capital" before taxes, UAW isn't proposing that the money be parceled out to workers, individually. That's an important fact most have overlooked.

Rather, UAW suggests that the shared profits should be used for "such purposes as the workers in each section of our union themselves decide through the democratic processes of the UAW." That is, the General Motors, Ford, and Chrysler departments of the auto union —which will meet separately before bargaining starts—can decide how they want to use a profit-sharing fund, if one can be won at the bargaining table.

In the case of the Ford workers, the probability is that a fund to provide a shorter work week will be proposed.

• **Reuther's Position**—Knowing this, it was not surprising last week to hear Reuther and his aides edge closer and closer to identifying profit-sharing and the short work week demand as two approaches to a major union goal.

Initially, Reuther seemed to say, "You can't be for the shorter work week and this [collective bargaining] package, too." He later amplified that to say that those "for the shorter work week as a part of the basic demand . . . can't be for the program" proposed by the union administration. That is, if the cost of reducing the work week would have to come from regular wage costs, the shorter work week couldn't be advocated under UAW's "non-inflationary" program for 1958.

A bit later, Reuther said that the profit-sharing is merely a better tactical

approach, presumably to a shorter work week. Then he indicated that UAW leaders might have other ideas, commenting, "In collective bargaining, you can't discuss what bridge you will cross without the employers knowing it. If we have to take another approach, we will decide that as we go along."

And, finally, he said flatly: "As I have stated repeatedly, the shorter work week is not precluded by this program —it is included in it."

• **Another View**—A member of the committee that brought in the resolution for the bargaining program said:

"If this resolution is adopted, the shorter work week will be on the bargaining table in 1958 to the extent that your members want it there."

Furthermore, he said, the changed program "doesn't mean now is not the time for the shorter week."

That statement, without meaning to be, was a seeming contradiction of what the international executive board said in recommending the program. But it reflected a general feeling among the delegates that, with heavy layoffs in the auto industry, the shorter work week demand should be incorporated in the program along with profit-sharing.

In view of that sentiment, why did Reuther attempt to switch the focus away from the shorter week?

II. Propaganda Setback

Reuther has been complaining for months about the auto industry's "false and misleading propaganda campaign" directed against UAW's announced aim of wage increases.

What has been going on, certainly, has been an industry campaign to give its side of every charge or every statement UAW has made in advance of bargaining, something unprecedented in Detroit (BW—Aug.31'57,p104).

UAW's soft-pedaling of the shorter work week demand is the result. The union has run into such a barrage of criticism directly from the companies with which it bargains that Reuther himself decided that the companies would never give in to a naked demand for more money for less work. With his sharp sense of public relations, he could see this demand being resented by a general public worried about defense production, layoffs, high prices, and the like.

Casting about for a dramatic, easy-to-popularize standard to which all workers could repair, Reuther hit upon profit-sharing. As a principle, profit-sharing is, of course, a well-accepted way of business life (BW—Jan.25'58, p56). Reuther gave it an added public relations fillip with the suggestion that some of the profits should be passed along to consumers.

In keeping with their new policy, the

OLD WAY. Costly and time consuming

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CORRUGATED boosts sales for nickel alloy pigs —saves shipping, handling and storage costs

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Langston doesn't sell corrugated, only the machines that make it. Since 1902, Langston machines have led the field in efficiency and dependability. *Samuel M. Langston Co., Camden 4, N.J.*

THINK FIRST OF CORRUGATED

LANGSTON Corrugated Container Machinery

auto companies snapped back that it is a "radical scheme," "unrealistic," and so forth. But it is also, as Ford Motor Co.'s Chmn. Ernest R. Breech said last week, a proposal that is "superficially attractive."

III. What Are Its Chances?

Breech was not being complimentary in his comment, made in a speech at Nashville. Most of his speech condemned Reuther, his plan, and his union in words that no auto company official in recent years has used publicly. One paragraph undoubtedly will be the industry's main argument against Reuther's profit-sharing plan:

"It would invite increasing demand for union veto power over day-to-day management decisions. Budgets for advertising, research and engineering, new model tooling; capital expansion plans, make or buy decisions, all would be viewed by the union as affecting profits. Naturally they do not propose a loss-sharing plan. The union would have no responsibility for or role in increasing profits. Yet, you can be sure, it would question all actions of management as tending to limit the hourly employees' share of profits. We have enough troubles, as it is, in dealing with the union in our manufacturing operations alone."

Auto company people suspect that Reuther is not after the traditional type of profit-sharing at all. They cite a 1949 UAW bulletin that said profit-sharing is a "phony answer" to workers' demands, is a way to get more work for less money, and just won't work. So the auto people will not be surprised if it develops that what Reuther wants for UAW is the creation of some new form of "humanitarian" trust fund out of auto profits above a certain figure—a fund so flexible in scope that it could be presented as meeting all UAW demands, for such things as shorter hours, layoff and severance pay, relocation and retraining of displaced workers, and the like.

At this point, the auto industry is against any profit-sharing plan. But a trust fund such as that talked of as Reuther's real objective may, in the long run, be more palatable—and, as far as 1958 labor costs are concerned, cheaper—than UAW's other demands.

What Next With the Teamsters?

Both AFL-CIO and the giant truckers' union must soon decide whether they will be at war or peace with each other.

Decisions may be made within the next two weeks on whether there will be war or peace between the AFL-CIO and the Teamsters. Hopes of avoiding jurisdictional and organizing conflicts are fading.

In the days ahead, the AFL-CIO executive council will meet in Miami Beach with questions of future relations with the Teamsters high on its agenda. About the same time, the Teamsters' top leadership will sit down with James R. Hoffa in Washington to outline a policy to be followed in day-to-day relations with AFL-CIO.

Up to now, the federation and the union that once was its largest member have pointedly avoided friction. The coming meetings are the first policy-making sessions since the federation expelled the truckers. The initial wait-and-see-what-happens wariness has worn off. Both sides now feel that basic decisions must be made.

• **Why the Change**—These developments contributed to this change:

• Hoffa's winning streak in the courts continued when 13 rank-and-filers dropped their suit to bar him from the Teamsters' presidency. Although technically this wasn't a victory for Hoffa—any more than the hung jury in his wiretap trial could be considered one—it cleared the way for Hoffa and his supporting executive board to take control of the union, under the supervision of three monitors—L. N. D. (Nat) Wells, a Teamsters lawyer from Dallas; Godfrey Schmidt, attorney for the rank-and-filers, and Judge Nathan Cayton, retired chief judge of the District of Columbia municipal court and a railroad labor arbitrator.

• The Senate Select Committee headed by Sen. John L. McClellan (D-Ark.) began probing into the 200,000-member Operating Engineers, uncovering signs of irregularities reminiscent of those in the Teamsters. This gave AFL-CIO another unwanted target in its running fight on improper practices in labor. The federation's Ethical Practices Committee summoned the Operating Engineers to a hearing on the charges.

These two events, coming together, are forcing the hands of George Meany of AFL-CIO and of Hoffa.

• **Waiting Period**—After the expulsion of the Teamsters last month, AFL-CIO sat tight, hoping that Hoffa would trip up in court. A defeat for the leader would probably have barred his formally taking over in the Teamsters—and the big reason for the expulsion would have been removed.

But Hoffa wasn't defeated. He is now in control of the Teamsters, despite the supervision of the board of monitors charged by the court with "counseling with" and observing the union's leaders.

As official head of the Teamsters, Hoffa can now bargain with AFL-CIO or battle it from a stronger position.

• **Status Quo**—So, there is no longer reason on either side for wary fencing. There is little likelihood that positions, now solidified, will change any time soon. Hoffa is in office, and—regardless of the potential legal curbs on his activities—Teamsters reaffiliation with AFL-CIO is virtually barred for as long as Hoffa is at the union's helm.

This doesn't mean that proposals that AFL-CIO take the Teamsters back into the House of Labor won't be heard, now. AFL-CIO's further internal problems—the charges against the Operating Engineers, rumors of charges to be brought later in Senate hearings on the Carpenters and other unions—are prompting some AFL-CIO union leaders to urge a rapprochement.

Their fear is an obvious one: With the Operating Engineers facing the Ethical Practices Committee, precedent may be followed to the point of that union's ouster—giving the Teamsters an important ally, and further weakening the powerful Building & Construction Trades Dept.'s allegiance to the federation.

Meany is uncompromising, however, and he is strong enough to assure another no-deal stand at Miami Beach.

• **Next Step**—The question is: What will—or can—AFL-CIO do next? In the cases of other ousted unions, it has set up new, rival organizations for those locals anxious to stay in the federation.

But, of some 900 Teamsters locals, only a scant dozen have indicated any desire to shift to the AFL-CIO. Before the federation can hope to war on the Teamsters in this way, it has to have the assurance of far more sizable defections. It is held largely to planning defensive strategy.

Hoffa, on the other hand, is now in a position to be aggressive. He has talked, for the past seven weeks, about continued coexistence with the AFL-CIO but, more recently, about jurisdictional warfare. Particularly where workers are unorganized, he said recently, union lines "do not exist, and we won't recognize any."

There is nothing reassuring for AFL-CIO unions in this. Chances are Hoffa will now take his cue from the federation executive council meeting. If it is conciliatory, he will be, too. If it isn't, Hoffa will take the gloves off. END

In Labor

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Champion Paper Guarantees Workers 48 Weeks of Employment in 1958

A guarantee of at least 48 weeks of employment, or equivalent time, during 1958 has been offered by Champion Paper & Fibre Co. to its 10,000 employees in plants in Hamilton, Ohio, Canton, N. C., and Pasadena, Tex.

Champion Paper will not change its "basic goal of providing a full 52 weeks of work." But, according to Pres. Reuben B. Robertson, Jr., 1958's "somewhat uncertain market" makes it necessary to "put a floor under our steady work policy."

Robertson explained that any time worked over the normal 40-hour work week would count toward the 48 weeks guaranteed. Time absent for paid holidays, paid vacations, disability, disciplinary action, failure to work when work is offered, and layoffs caused by fire, catastrophies, or government action would also be counted toward the 48-week period.

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B. F. Goodrich, Five Ohio Stores Side With USW in SUB Fight

B. F. Goodrich Co. and five Youngstown (Ohio) stores filed briefs last week supporting a United Steelworkers bid for integrated state and private unemployment pay.

The Ohio Bureau of Unemployment Compensation now bars the simultaneous payment of state benefits and private supplementary unemployment benefits. Its administrator, James R. Tichnor, also has ruled out a number of alternative SUB plans.

USW, one of the unions affected, has a challenge in the courts (BW–Oct.26'57,p161). **Although there is strong employer opposition to integrated payments in the state, Goodrich (which has an SUB plan in its United Rubber Workers contracts) and the stores are among managements siding with the unions on this issue.**

The key argument in their briefs is that SUB payments help the individuals eligible for benefits and the local area in which they trade (BW–Jan.18'58,p121).

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Pensions Tied to Cost of Living Plugged at NICB Conference

Union proposals that pensions should be tied to the cost-of-living index received support recently in a talk at a New York conference of personnel administrators sponsored by the National Industrial Conference Board.

Geoffrey N. Calvert, vice-president of Alexander & Alexander, Inc., warned employers that pensioners are becoming "seriously disillusioned about the security which was promised them by the companies to which they gave a lifetime of service." They are "particularly vulnerable to inflation . . . and are least able to do anything to increase their income."

Calvert listed a number of ways pensions might be kept closer in line with living costs. **A "properly designed cost-of-living pension plan" in conjunction with a "properly invested pension fund" is the preferable way, Calvert believes. It entails "less real financial risk," and may be less costly than "is generally supposed."**

The United Auto Workers bargaining program for 1958 includes a demand for gearing pensions to living costs. The United Steelworkers is expected to make a similar demand in 1959.

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Communications Union Proposes Public Review of Its Demands

Joseph A. Beirne, president of the Communications Workers of America, last week announced an intriguing innovation in collective bargaining. **In the public interest, he said, he will ask Labor Secy. James P. Mitchell, "to appoint a fact-finding board of eminent Americans" to review CWA demands before the union enters 1958 bargaining.**

The telephone workers' union opens contract talks with Southern Bell in March. A four-day policy meeting in New York last week roughed out what CWA will go after then and in other bargaining with Bell System companies.

Before the demands are put before Southern Bell, **CWA will ask for a public review of what it wants and "guidance on paring down if in the review committee's judgment they should be pared."**

What seems on the surface to be a highly creditable proposal is unlikely to get anywhere: A public review of union demands in advance of bargaining by a board named by the Secretary of Labor could tend to give official backing to the union's position even before management's contract proposals reach the table–and before real collective bargaining can get under way.

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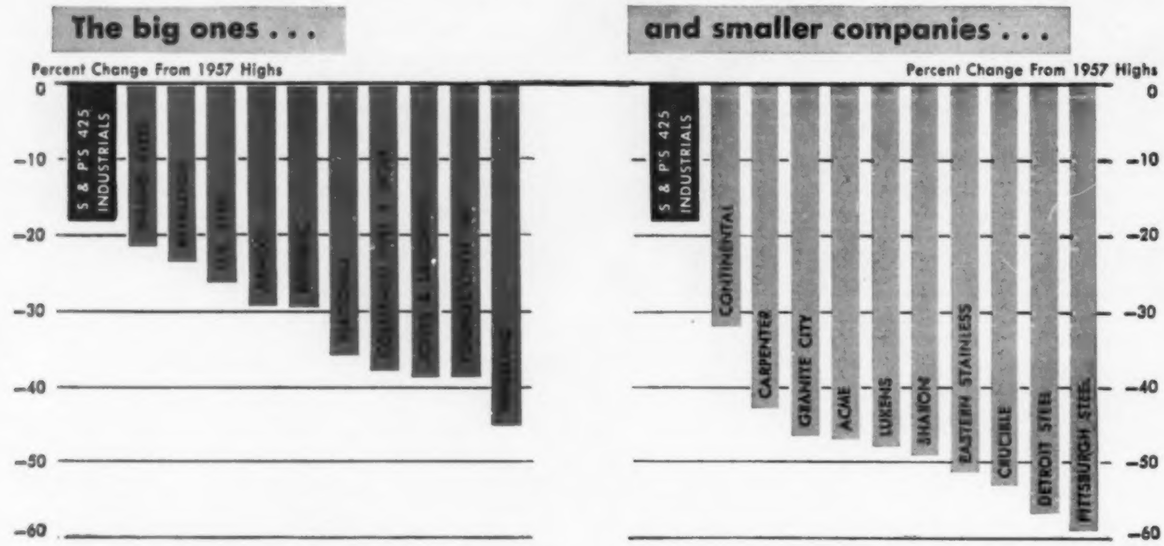
NLRB Strengthens Its Hands In Barring Jurisdictional Strikes

A new National Labor Relations Board policy shift is expected to strengthen existing machinery for barring jurisdictional strikes.

In a unanimous decision, the board disclosed that it would revise its rules to accept unfair-labor-practice complaints in certain cases without a hearing to determine the merits of a dispute. This procedure will apply in industries such as the building trades, in which labor-management machinery exists for settling union rows.

Strikes called in anticipation of an adverse labor-management settlement will be subject, under the new NLRB ruling, to an unfair-labor-practice citation by the board. In the past, NLRB automatically refused to accept such cases on the grounds that they should be handled by the industry's own machinery.

THE STEEL STOCKS: Deep in the trough



Are They Ready to Bound Back?

Some investors think steel stocks are following a typical cyclical pattern and have just about reached the turning point. But distress signs are still flying in the industry.

Steel shares, which have come down with a thump from their 1957 highs (chart), are the new target for one of Wall Street's most daring occupations: calling the turn on cyclical shares.

Cyclical shares behave the way their name implies; they swing from high to low and back again in a relentless pendulum. Few investments can be as profitable as buying a cyclical stock when it's at a low but poised for an upturn. But it's a real test to pick the stocks just at the turning point. If investors aren't skillful, they can lose a lot of money or tie up their capital for a long time.

• **Ready to Turn Up?**—There is talk beginning now that steel shares are ready to pull out of their slump and start swinging up. After a spectacular period of growth, most steel commons have declined in a typical cyclical pattern. Some market analysts think the decline is over. But so far, only the most intrepid investors have been backing their hunch with hard cash. Those who are betting on steels are confident that the general business trend will pick up in the second half of 1958. And they feel that steel stocks will rebound with greater force than other stocks hurt in the 1957 decline.

But in general, investors are still shying away from steels, despite the obvious fact that many of these individual securities offer better yields and are selling at lower price-earnings ratios now than during their bull market highs. The consensus is that with mills still operating at low levels and earnings hard hit, there's more bad news in the market ahead.

• **Signs of Distress**—The steelmakers, themselves, were displaying distress signals that seemed to support this cautious point of view:

• Detroit Steel Corp. deferred its first quarter dividend until it had a chance to study 1958's prospects.

• Pittsburgh Steel Co. omitted its dividend, payable Mar. 1; it showed a fourth-quarter net loss of $120,372.

• Sharon Steel Corp. shut its Lowellville (Ohio) works for one week because of lagging orders. This brought the operating rate for this week in the Youngstown area down to 54%.

• Kaiser Steel Corp. slowed its $194-million Fontana steel mill expansion program. The program, which would almost double Kaiser's capacity, now has been stretched out indefinitely.

• A number of companies reported lower net incomes. Among them: Republic Steel Corp., Atlantic Steel Co., and Carpenter Steel Co. Republic, the nation's third largest producer, disclosed that sales had dipped about $17-million, that net income per dollar of sales had shrunk to 6.9¢, compared to 7.3¢ in 1956.

Production and operating figures give a sharper picture of steel's slide. American Iron & Steel Institute estimates 1957 steel output at 112.7-million tons—third largest on record. But steel mills were operating at an average of 84.5% of capacity, lowest rate in 10 years, except for 1949 and 1954.

• **Decline Rate**—Moreover, the operating rate has continued to decline since the fourth quarter of 1957. And during that quarter, most steel companies registered sharp dips in sales and profits.

Even U. S. Steel Corp., while recording peak sales and profits, suffered in this respect. The company reported that net income for 1957 was $419-million, equal to $7.33 per common share, and that return on its $4.4-billion sales year was 9.5%.

But net income for the last quarter last year was only $90-million, against $104-million for the like period in 1956. Besides, U. S. Steel's backlog of orders on Dec. 31 was only 4.9-million tons compared with 6.3-million at the end of 1956.

This week, steel mills are running at only 54.8% of capacity. This adds up to production of about 1,479,000 tons, some 59,000 tons behind the output of the week beginning Jan. 13. And you can't find too many steelmen who won't admit that a 75% rate—or

roughly 105-million tons—is about all that can be hoped for in 1958.

Even at a 75% operating rate, however, most steelmakers can make sizable profits. And 1958 profit margins should be widened by the expected July price boost, smaller break-in costs, and declining accelerated amortization charges. But steelmakers are rediscovering that during a general business slump, snags can develop to offset any possible gain.

• **Narrower Margins**—Many mills, for example, are beginning to absorb heavier than usual freight charges for the steel they sell to customers outside their normal selling areas. Allowances have worked up to an average of around $3 a ton, and in extreme cases to $10, compared to the usual $2 allowance. This higher freight allowance means that mills will be getting less net return per ton.

The business slackening also has forced steel to abandon premium pricing. The last holdout, Barium Steel Corp., took its premium off plate a few weeks back. Without this icing, the industry could end up with a far less rich fare than it had in its feast days. In fact, there's real doubt that the industry will be able to pass on fully the wage increases it grants to workers this year.

The end of premium prices is likely to hit hardest at the smaller non-integrated companies and the specialty steelmakers. They're the ones whose stock values declined the sharpest last year (see chart), and their non-diversified product mix makes them more vulnerable to economic troubles. Pittsburgh Steel and Detroit Steel, for example, are heavily involved in automaking. When autos started to suffer late last year, these companies got bumped hard, too.

• **Behind the Optimism**—Investors who are purchasing steel stocks now look for the shares to gain favor before a general business upturn. They cite these factors: greater demand for high-grade steel for the stepped-up missile program, and an end to inventory liquidation in the second quarter.

On their side, too, is the fact that steel's present operating rate is somewhat misleading. During the summer of 1957, the industry believed that fourth-quarter demand would be strong. So mills continued to run at high operating rates—higher than justified by new orders or backlog. But fourth-quarter demand never materialized, and the mills are paying for their over-optimism. Now, as the mills work off inventories, the operating rate suffers.

The majority of steel stock analysts feel that steel shares may not be out of trouble yet. The minority who feel that the worst is over retort that the secret of picking stocks at the bottom means going against the trend. END

In the Markets

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Treasury's Offer to Security Holders Considered "Extremely Attractive"

The Treasury this week announced a three-way package offering to holders of $16.8-billion in maturing securities. Investors had a choice of a 2½% one-year certificate, a 3% six-year bond, or a 3¼% 32-year bond—an offering that market men considered "extremely attractive."

A three-way offering was expected by the market and the rates set by the Treasury were in line with market thinking (BW—Jan.25'58,p144). **But some dealers in Treasury securities were surprised that the long-term bond rate was up to 3½% and predicted that it would be bought in fairly large numbers.**

There is no doubt that the easing of the Federal Reserve's credit policy, particularly last week's cut in the discount rate, has made the Treasury's selling problem easier. Last fall, it had to pay 4% for both short and intermediate-term offerings. But the rates it set now appear attractive enough to reduce attrition—redemption of maturing issues for cash—to a minimum.

The fact that the Treasury offered all holders of the maturing issues an opportunity to subscribe to any part of the new package makes it apparent that the Treasury is aiming to stretch out the average maturity of the debt. Market experts predicted that at least $2-billion would go into the long-term issue, the highest amount in years.

Even so, the Treasury will soon be back in the market with a cash-raising operation. The Treasury itself says that it will have to borrow cash, probably about $2-billion, in the next four or five weeks no matter what happens in its current refunding.

Investment men had expected a slightly higher rate on the one-year certificate. But the continued drop in all short-term interest rates gave the Treasury an opportunity to reduce its interest tag. This week, the 91-day Treasury bill rate dropped to 2.2%, its lowest level in two years, and sales finance companies cut their commerial rates by one-quarter of 1%, which brings them back to 1956 levels.

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Stock Averages Keep an Even Keel, But Groups Have Many Ups and Downs

Stock averages this week continued stable. Some analysts were disappointed that the recovery had failed to penetrate the level of late November and felt that it meant a downturn was likely.

But the fact is that the averages have resisted both the October low and the November high. This suggests that traders are buying when the averages decline and taking profits when they approach the high.

Though the averages were stable, there were considerable fluctuations in group movements. Oil stocks continued to decline, and other cyclical issues showed little strength. Rubber shares, for example, were headed down.

A number of groups, however, were in demand. Both copper and airline shares perked up, and there was continued buying of defensive stocks with potential growth possibilities—consumer goods stocks, in particular. Rail stocks continued their recovery, which started with the Congressional hearings on the railroad industry. Investors are betting that the government will furnish some form of relief.

The popularity of defensive shares was also evident in the over-the-counter market. Bank stocks, in particular, were getting a play.

Many professionals think that the market is likely to decline further. But there are only a few now who expect a new bear market that would drive the averages down another 20% or more. On the other hand, some analysts are now saying that a bull market may get under way sometime this year.

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The Markets Briefs

Long-depressed gold mining stocks are spurting sharply. E. F. Hutton & Co. notes that **the average price of four leading gold stocks** has climbed from $116 on Jan. 10 to about $139 by Jan. 28. Partly, the rise is due to unfounded rumors that the price of gold would be hiked to $40 an ounce. But some really smart money is backing gold shares, too. The reason: In times of recession, gold companies do well. Their costs go down, but the price of gold remains fixed.

The humble potato has made rich feasting for speculators in the commodities market. Investors who bought contracts in December for April delivery, for example, could have doubled their money if they had liquidated this week. The price has risen from $2.90 to $3.40 a contract, and this 50¢ is equivalent to $225 on the Mercantile Exchange; each penny equals $4.50. So for a $200 margin deposit on a single contract, an investor would have got back $225, plus $180—his deposit less commission, or $405.

When **Foster Wheeler Corp.** omitted its dividend this week, Wall Street investors responded by dropping its market price $4.87 in a matter of hours. But investors were also showing uneasiness about the near-time future of the atomic energy companies that have been fairly lax in gauging costs. In September, for example, Foster Wheeler disclosed it had increased its construction price from $4.5-million to $14-million on a single reactor for the Wolverine Electric Cooperative.

A new booklet on "Long Term Corporate Bond Experience" published by the American Bankers Assn. points out that issues secured by mortgage, collateral, or leasehold interest generally assure reasonable protection—but that **security can't be counted on for complete assurance against risk or default.** The study shows that an unsecured bond of a corporation having a good earnings record suffers less from default danger than do bonds that are secured, but are issued by corporations with a poor earnings history.

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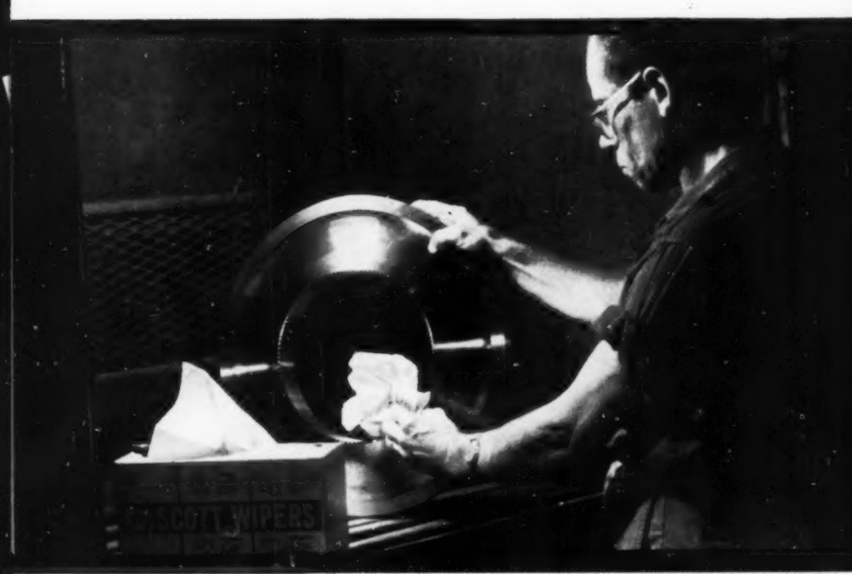

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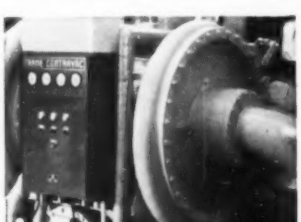

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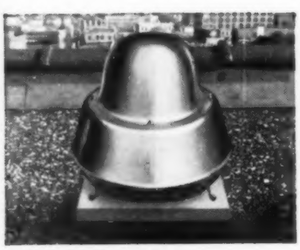

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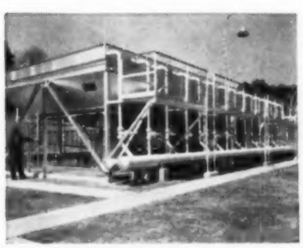

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PERSONAL BUSINESS

A BUSINESS WEEK
SERVICE

The winter season for boat shows, now at its peak, has always been the prime time for spotting developments in the boating field. **This year, what stands out is the increasing influence of Detroit's auto stylists and pushbutton specialists** (BW—Dec.21'57,p37). The trend was marked at the National Motor Boat Show just held in New York; it will be equally evident when the Chicago boat show opens next week.

In pleasure boats, this year's big emphasis is on comfort and convenience, with eye appeal running a good second. Auto-type fins and gadgetry aren't going to rule the waves for another season or two, but for the future the boat makers think their customers will lean to that type of design.

On the practical side, prices are up. The increases vary, of course, from company to company, but by and large boat prices have risen 10%-15% in the past two years. As for materials, plastic construction offers more and more advantages—especially in lower maintenance costs. And there is a continuing emphasis on speed.

The budding trend toward auto-type gadgets shows clearly in two models. Evinrude has a 21 ft. "outboard station wagon," at $18,500, that includes a pushbutton telescoping roof, power seats, a built-in stove, even a cigarette lighter. Century offers an experimental 21-ft. inboard (XL-325) with a power-operated bubble roof, pushbutton gear shift, and bucket seats, to go with its "sports car" interior.

If you want speed, you can get it—at a price. Thus Ancarrow Marine has a 20-ft. speedboat, the Praetorian, that can do 55 mph. and is tagged at around $8,000. It also offers a 60-mph. speedboat, the 24-ft. Aquilifier, that costs $19,500. If that kind of speed doesn't interest you, there are 21-ft. "utility" speedboats that can do 18-24 mph. and sell in the $3,000-$3,500 range. (At around $10,000, you can get a modest-speed cabin cruiser that sleeps four such as Owens' 27-ft. model, priced at $10,300).

Outboard engines and attachments are still growing—in size, elaborateness, and cost. Scott Atwater, for one, has a new 3-cyl., 60-hp. engine for $980, with an optional power-steering arrangement for another $200.

And for $150, you can get a gadget that will electrically tilt your engine away from danger in shallow water.

The most powerful outboard, at 70 hp., is Kiekhaefer Mercury's new $960 engine. Both Evinrude and Johnson have new and quieter 50-hp. V-4 engines, selling for $840.

Plastic construction keeps increasing its share of the small boat field. One recent survey showed that plastic hulls had cornered 22% of the outboard boat trade. The new plastics—now rid of many early construction bugs—are strong, durable, and need less maintenance than wood. Yearly painting is pretty well eliminated. Plastics cost around 10% more than wood for small boats, though in larger models cost is about the same—sometimes less.

For inboards and sailboats, plastics are also gaining. For example, Luders is offering, for the first time, a plastic version of its famed 24-ft. L-16 racing sloop, for $6,250.

Here are some other new waterborne ideas that you'll be seeing soon:

- **The first working diesel outboard engine**—American Marc's 7½-hp., 80-lb. job. It costs $325.

- **A rubber-plastic material for hull construction**—U. S. Rubber's Royalite. It's a sandwich of synthetic rubber and plastics, and is said to have high resistance to impact. Both Crestliner and Wagemaler have Royalite boats

on the drawing board. Prices are a shade higher than competitive materials.

• **A steel houseboat,** first of its kind ever to appear in a national show. It's the River Queen, measuring 32 ft. by 11 ft. and with the emphasis on interior comfort. The cost: $5,500.

• **A closed-circuit underwater TV camera** for treasure hunters and other probers of the deep. Bludworth Marine sells it for $4,000.

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Outer Space: You can prepare for livelier after-dinner conversation about the Space Age by boning up with these new books:

• **Around the World in 90 Minutes,** by David O. Woodbury (Harcourt, Brace, $5.75). A detailed account of manmade satellites—how and why.

• **Once Round the Sun,** by Ronald Fraser (Macmillan, $3.95). The story of the International Geophysical Year, with easy-to-understand drawings.

• **Rocket,** by Sir Phil Jourbert de la Ferte (Philosophical Library, $6). A history of rocket development, plus the author's analysis of their ultimate effect on the world.

• **You and the Universe,** by Andrew Kenneth Primos (Comet Press, $3.75). All about the new worlds to be explored—in layman's language.

—•—

Travel costs up: Most of the nation's airlines are expected to file for the 6.6% temporary passenger fare increase that CAB has said it will approve. Domestic fares will rise 4%, plus an extra $1 on each ticket. **You'll have to pay the difference on a ticket bought before the increase, unless your ticket is already partially used when the fares go up.**

Also set for CAB approval are proposed increases in North Atlantic flight fares: First class fares to jump $35 one-way and $63 round-trip (BW—Jan.18'58,p138).

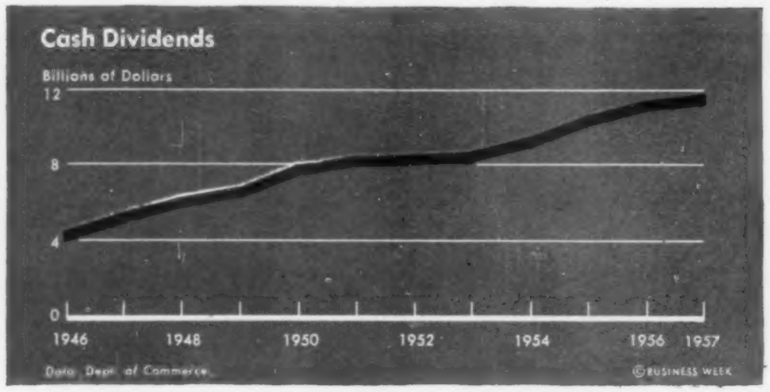
In the fall, transatlantic first class steamship passage will cost about 4% more, affecting eastbound sailings on Sept. 1 and westbound Nov. 1.

—•—

Now you or your youngsters can learn to play an organ—without disturbing others in the family. With a new combination organ and high fidelity phonograph system, you take lessons from teaching records (cost $795). An earphone attachment provides audio privacy—only the player can hear. Two week's practice with each of 48 records is a recommended full course. Phonograph and organ may be played separately or together—for an earphone listener, or aloud. The instrument is offered by the Thomas Organ Co., Sepulveda, Calif.

—•—

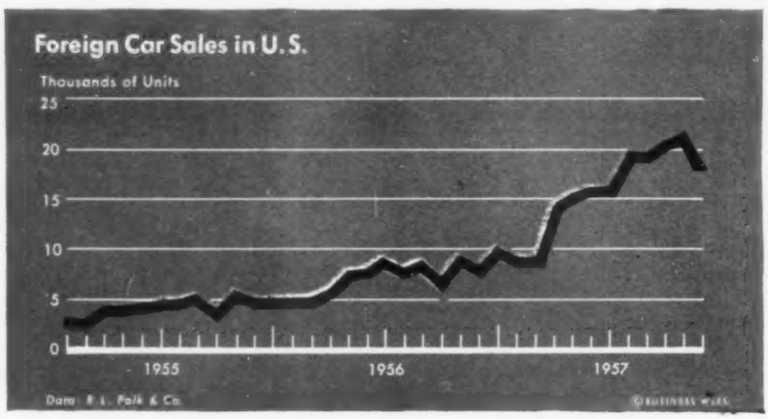
Start Packing: If you're still puzzling over where to go for a winter vacation, try Hawaii—reservations at top hotels are thinner than expected. . . . Visiting well-known artists, museums, and galleries is the idea behind the 9th Annual Grand Art Tour of Europe—sailing from New York, July 9 (first class $1,750). Write to American Express Co., 65 Broadway, New York 6. . . . For motorists, 400 dining places are listed in "Dine and Drive Through Britain," offered free by Victor Britain, Ltd., 12A Berkeley St., London W. 1, England. . . . The State Dept. will now accept color photographs for passport use.



Stockholders Hit the Jackpot

Publicly reported cash dividend payments last year reached an all-time high of $11.5-billion, despite a decline in December payments compared with a year earlier. But the 1957 increase of a little over 2% was the smallest since 1952 and except for that year, it was also the smallest for the postwar period. There were some increases in the proportion of earnings distributed, the Commerce Dept. reports.

Manufacturing industries increased dividend payments 3½%. Most of the gain was in oil refining, chemical, and iron and steel industries, whose payments rose about 5%.



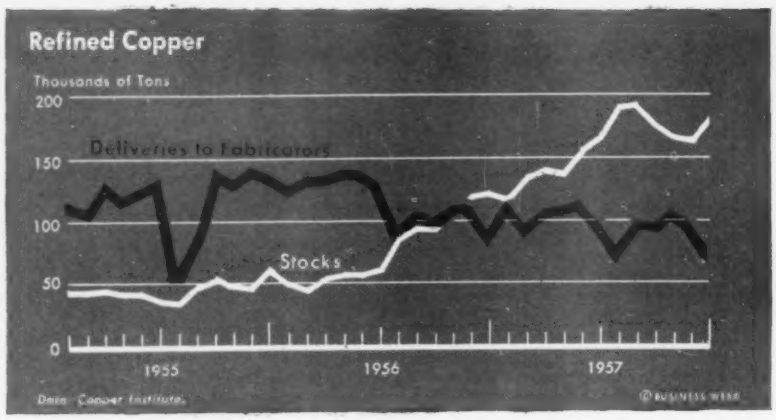
Foreign Cars Are Still Gaining

Imported cars continued to gain ground last year, with sales rising about 112% over 1956. Sale of 185,294 foreign cars in the first 11 months of 1957 accounted for 3.4% of total new passenger car registrations, compared with 1.6% in the comparable 1956 period. The 11-month figure for last year is almost equal to the total 1957 production of cars by American Motors Corp. and Studebaker-Packard combined. The 11-month 1957 registrations for the two American companies were 158,786.

Volkswagen is still the leader in the foreign field, but other makes are rapidly creeping up on its lead. Volkswagen sold 57,700 cars in the U.S. in the first 11 months of 1957, compared with 44,864 in the 1956 period. But its import share dropped to 31.1% from 51.3%. Renault, which hadn't been among the first five in 1956, took second place.

Britain, however, was in first place on the basis of the dollar value of imports to the U.S. In the first nine

months of 1957, Ward's Automotive Reports says, British imports were \$85.9-million, surpassing West Germany by more than \$11-million. In all of 1956, West Germany imports totaled \$64-million, British \$48.6-million.

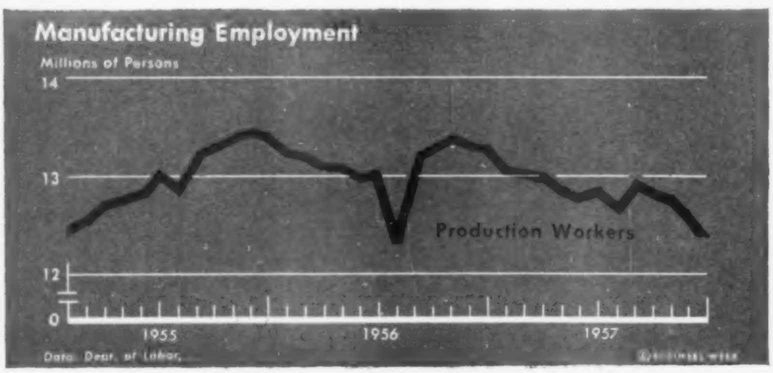


Copper Continues to Lag

Slumps in several key consuming industries, such as housing, autos, and appliances, have caused a decline in domestic shipments of refined copper. As a result, refiners' inventories have climbed and the domestic price has fallen to 24.5¢ per lb. from 35.5¢ a year ago. In 1956, it had risen to 45.6¢ per lb.

Copper had been in short supply almost continuously since the beginning of World War II, and it was not until 1956 that supply began to catch up with demand. Now, inventories are at near-record levels and demand has dropped. In December, 1957, shipments to fabricators in the U. S. were only 84,611 tons—lowest since the July, 1955, strike period.

Only last week, Phelps Dodge Corp., second largest producer in the U. S., announced it was cutting mine production further. However, Steel Magazine reported that producers view the long-term outlook for copper as promising. They feel new uses will be found and demand will rebound. For the short term, the publication predicts lower production will be necessary to work down large inventories.



Leaner Days for Factory Workers

The number of production line workers in December dropped to 12.5-million—6.5% below the December, 1956, level, and lowest since the 12.2-million in July, 1954. The average hours worked per employee per week remained at the November level of 39.3—down from 41.0 in December, 1956. The November and December hours per week were the lowest since May, 1954; and December payrolls were 7.8% below a year ago.

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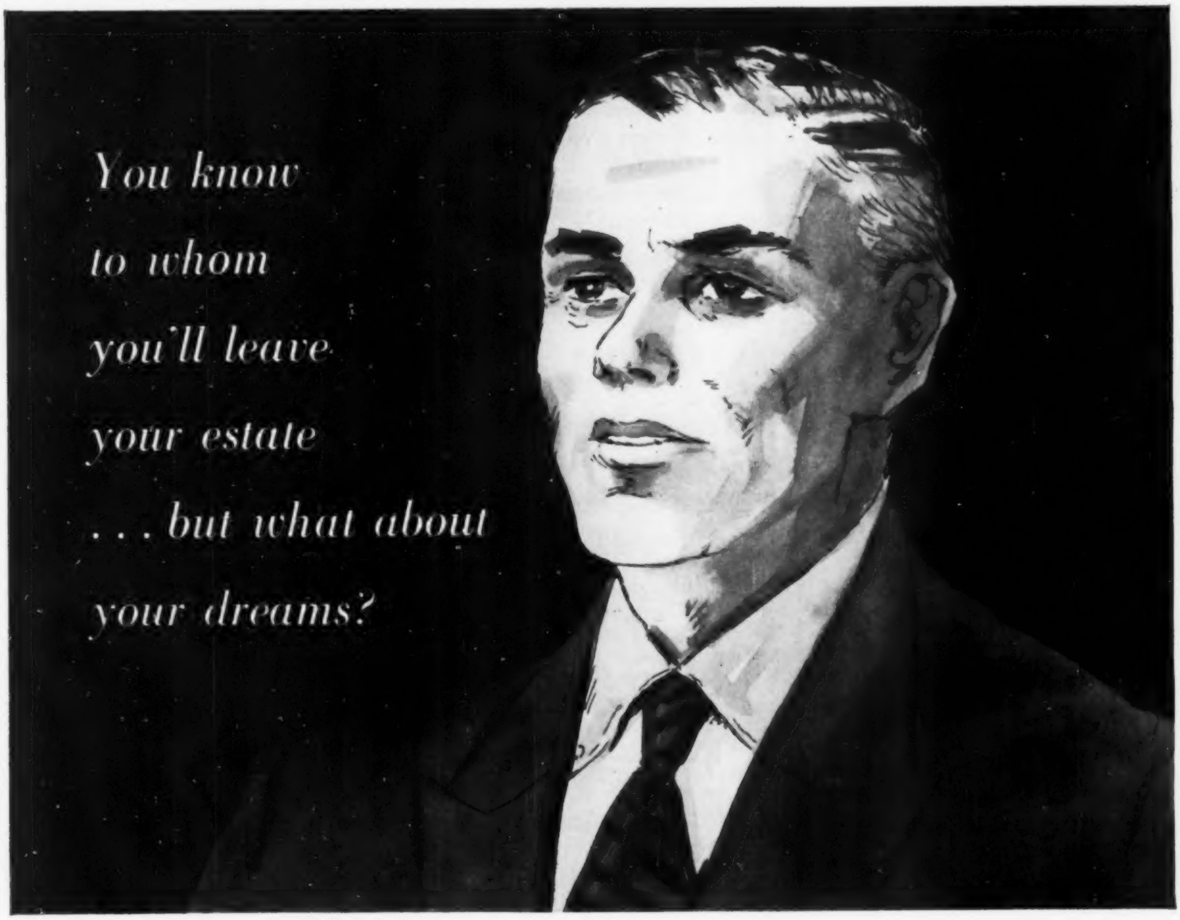
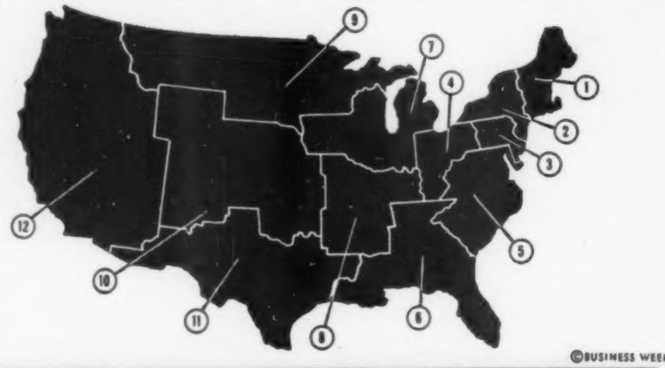


The Income Pattern:

Business Week's Regional Income Indexes

U. S. Incomes: Up 3.0% From Last Year



Federal Reserve District	% Change vs. year ago	The Indexes Nov. 1957	Oct. 1957	Nov. 1956
1. Boston	+ 1.4%	290.7	291.6	286.8
2. New York	+ 4.3%	317.4	318.0	304.2
3. Philadelphia	+ 2.3%	305.1	307.1	298.3
4. Cleveland	+ 2.1%	358.0	353.1	350.7
5. Richmond	+ 2.7%	372.9	378.3	363.2
6. Atlanta	+ 3.0%	453.8	456.9	440.6
7. Chicago	+ 3.1%	364.4	362.6	353.5
8. St. Louis	+ 1.4%	330.1	329.7	325.7
9. Minneapolis	+ 5.4%	363.0	368.8	344.4
10. Kansas City	+ 5.8%	423.3	422.2	400.0
11. Dallas	+ 4.7%	500.8	503.4	478.4
12. San Francisco	+ 0.8%	402.2	403.5	398.9
Nation	+ 3.0%	362.3	362.8	351.9

1941 = 100; adjusted for seasonal, Nov. figures preliminary; Oct. revised.

A Gain, But It Dwindles

November incomes topped the year-before month, but the margin kept shrinking. And they lagged behind October, 1957.

U.S. incomes last November were only 3% above the year-before month, according to BUSINESS WEEK's Composite of Regional Income Indexes. It was the smallest year-to-year gain in nearly three years.

Regional gains ranged from Kansas City's 5.8% way down to 0.8% in San Francisco, where declining employment in aircraft centers bit deeply into income. California's Dept. of Industrial Relations reported that the November drop in industrial employment was the largest for any month since the 1953-1954 recession, reflecting new layoffs in aircraft and related industries, along with canning and lumber. The general decline for Region 12 was also affected by cuts in Oregon food processing, and in lumber and wood products in both Oregon and Washington. Conversely, in the midcontinent regions incomes were boosted by a picking up of activity in the centers of automobile production.

On the month-to-month basis, November incomes dropped 0.1% below October; and they were 0.6% below the record set in August. Eight of the 12 regions sagged from October to November, with only Cleveland, Chicago, St. Louis, and Kansas City registering slight gains. And the Cleveland region alone was able to reach an all-time high. END

NEW PRODUCTS

Oil Rig Runs Drill With a Wide Bore

This monstrous drill bit can bore a hole that's over 6 ft. in diameter. Though it's designed to work with standard oil well drilling equipment, it won't be used to seek out gushers. It's intended to drill ventilation and access holes to underground mines. The drill's developers expect it will find its greatest use in coal mines.

After a 12-in. pilot hole has been drilled, the large bit is inserted and can work its way down as far as a line of regular oil drill pipe can reach. According to Angelo Zeni, one of the four men who developed the drill, there's no reason why it couldn't go down 10,000 ft. or more. A pilot hole is necessary to lead it and so that the cuttings from the big bit can fall out of the way.

The bit solves the problem of drilling large diameter holes with small drill stems by an ingenious hydraulic clamping device that steadies the top half of the bit in the hole, while the bottom half, fitted out with 15 cutting heads, rotates. The drill digs down 5 ft., then the non-rotating part is lowered and reclamped in the hole so the drill can dig down another notch.

Zeni says his company, Zeni-McKinney-Williams Corp., spent three years developing the bit at a cost of about $250,000.

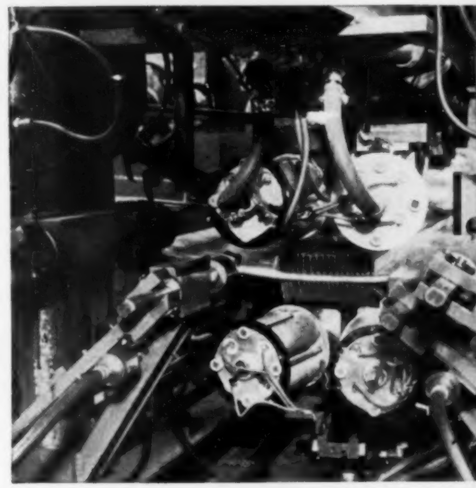
Ultrasonic Welder Goes Automatic

The machines that use high frequency sound energy to weld one piece of metal to another are getting bigger and faster. The welding heads shown at the right, part of a new ultrasonic seam welder made by Gulton Industries, Metuchen, N. J., can tack heavy aluminum foil to a thick aluminum sheet at the rate of 200-in. per minute. Other methods can't match this speed. And because ultrasonic welding doesn't generate heat (BW–Sep.8'56,p91), warping, distortion, or interference with the temper quality of the metal joined are not serious problems.

Gulton's first welder is a special purpose machine for making heat exchanger components. It makes a 30-in. seam, but can be adjusted to weld a longer joint if needed. Gulton also plans to manufacture other seam welders that operate on the same principle, and will sell them at prices starting at about $15,000. The welders will join a variety of metals, including dissimilar metals, but at least one of the metals must be thin sheet. So far the process only works on metal thinner than 0.08 in.

The welder has a new type of horn-shaped welding head, driven by four ceramic transducers that vibrate at about 18,000 cycles per second. Each head uses about 500 watts of power.

The prototype machine is semi-automatic, has eight welding heads.



Pipe Bender That Spares Electricians

An accident that injured one of his employees spurred Morton Bank, a New York electrical contractor, to work out the new pipe bender pictured at the right. The 160-lb. electrical machine, called Condumatic, can bend 1-in. steel conduit pipes at the rate of three a minute, wheels about on a construction job as easily as a bag of golf clubs.

Bank, president of Meyerbank Electric Co., Long Island City, N. Y., says the machine has been well received so far by other contractors who have seen it in operation. Electricians, at least, should welcome it. According to labor union records, pipe bending causes more on-the-job accidents among electricians than any other activity. Electricians, unlike plumbers who use fittings to turn corners, bend conduit by hand on wide radius curves—called hickeys—so that wires won't jam when fed through after the conduit is installed.

Bank's original device was made of steel and he had intended it only for use by his own men. But a friend, Rowland Simes, who manufactures lighting fixtures, looked at it and made suggestions for redesigning it to make it lighter and easier to produce. The result was this unit made of lightweight aluminum castings.

The machine will bend steel or aluminum conduit from ½-in. to 1-in. in diameter on radii from 2½ in. for the smaller conduit to 5 in. for larger diameters. A set of metal shoes for different sized pipes and radii is supplied with each machine.

The Condumatic will be manufactured by Simes Co., College Point, N. Y. It will be distributed nationally by Chamor Mfg. Corp., Long Island City, of which Bank is president, and by Graybar Electric Co., as well as by local dealers in New York and Chicago. It sells for $595.

ONLY MINUTES are needed for repairman to clip two wires to the engine and discover from the oscilloscope screen whether it's running properly. Present methods can take hours.

Charting

Next time you steer the family car into the neighborhood garage or service station for a tune-up, the repairman may be able to diagnose its complaint with startling speed, thanks to the device depicted on these pages.

It's a piece of electronic equipment that can test the engine for a whole array of troubles, then chart the results—such as the wavy lines at far right—on an easy-to-read oscilloscope (cathode tube). For the auto owner, it's a blessing in several respects:

• Speed. All it takes is five to eight minutes for a mechanic to attach two to four wires to the engine and check for the most common failings. It used to take anywhere from two to three hours just to remove the distributor and spark plugs to check them, using all kinds of expensive special equipment.

• Economy. A test with an oscilloscope can cost anywhere from nothing to \$1.50-\$2, compared with \$8-\$15 for a conventional tune-up.

• Accuracy. The oscilloscope tests the engine while it's running. This means the blighted part can't work fine when it's taken out of the engine for testing, then conk out 10 minutes—or 10 days—after you drive away.

• Visibility. Even a motorist who has never seen an oscilloscope before can note the variation in the wave pattern—and see for himself that part of the engine is acting up. This is a big boost to public confidence in the repairman.

• Manpower. They save the mechanic's expensive time. According to some claims, it will be possible for less highly skilled men to run the scopes, and this will leave the increasingly scarce tune-up specialists for tougher assignments. In 1950, there was one mechanic for every 73 cars; now the ratio is 1 to 87.

• **How It Works**—Basically, the new electronic equipment is no different from what has been used since the 1940s to test aircraft engines. Like a meter, the oscilloscope tester measures voltage variations. Its special trick is that it can take a rapidly recurring cycle of events—such as the rapid sparking of an engine's ignition—and show on its screen just what's going on during an average cycle. If the engine's ignition circuit is under scrutiny, for instance, the actual spark pattern appears on the screen, and by looking at this pattern, a trained mechanic can tell whether the engine is firing correctly.

Adding the appropriate accessories makes it possible to test much more than just the ignition:

• A valve testing pickup—basically

Your Car's Health Electronically

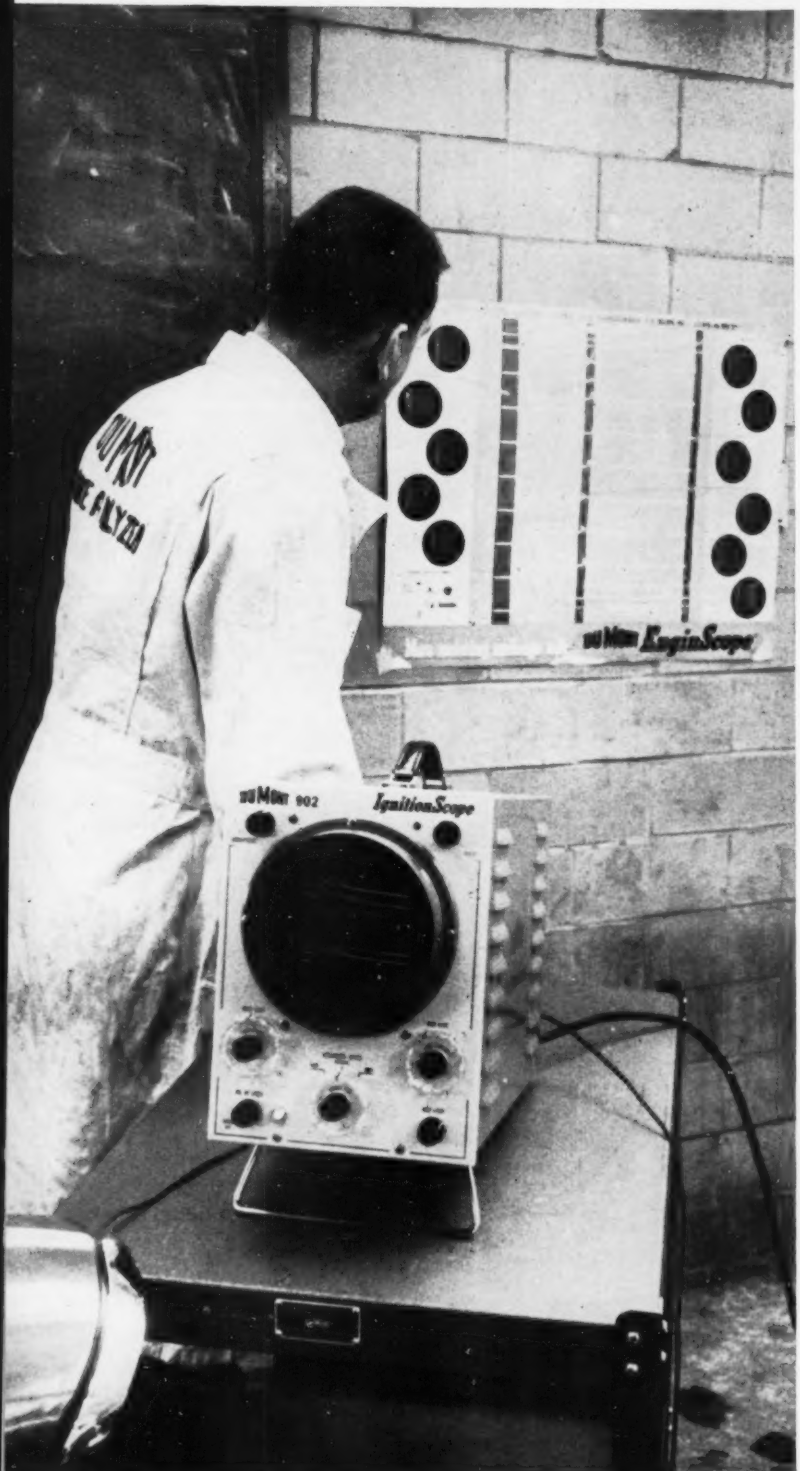
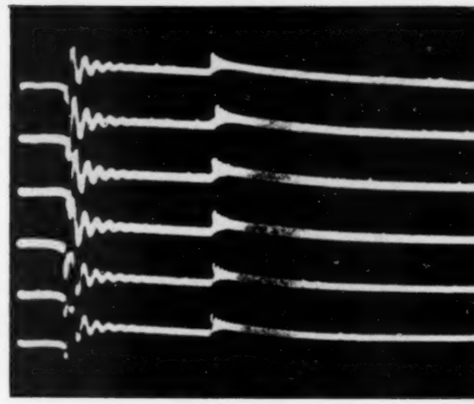
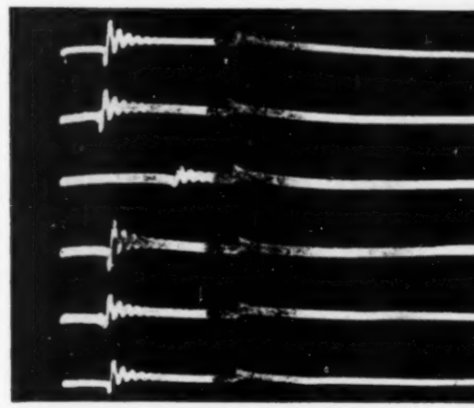


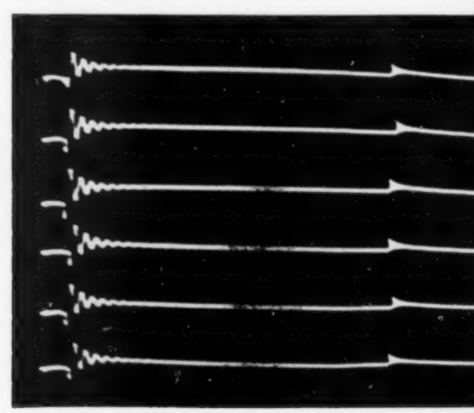
CHART on the wall explains to the customer what the wiggles on the screen mean. With accessories, scopes can expose a number of engine troubles.



NORMAL spark plug action on a 6-cylinder auto shows up this way in test with the new electronic device.



BAD PLUG is evident from pattern of the third line from top. This plug is shorted and not firing.



WIDE GAP between wavy section of lines and jog at right means distributor points are too far apart.

". . . U.S. auto repairmen spend $10-million to $20-million a year on engine test equipment . . ."

STORY starts on p. 128

an electromechanical device that can sense pressures—will reveal how the engine's intake and exhaust valves are working. It's possible, too, to pinpoint which cylinder is giving the trouble.

- A timing light teamed up with the scope enables a mechanic to time the engine, by watching the relationship between the crankshaft position and the firing order of the spark plugs as shown on the screen.
- A flame pickup device can indicate when cylinder deposits or low-octane fuel are causing pre-ignition difficulties.
- A noise and vibration pickup, or probe, can pick out elusive engine rattlings or loose parts.
- A special power pack, offered for $99 by one manufacturer, makes it possible to take the scopes on road tests.

• **Pioneer Tester**—Already U.S. auto repairmen spend $10-million to $20-million a year on engine test equipment, out of roughly $2-billion they take in from the public for engine tune-ups.

In the first 50,000 mi. of an auto's operation, 85% of all engine repair work can be classed as tune-ups. The complex new high-compression power plants need tune-ups even more frequently than their predecessors. But the ignition systems are becoming more and more inaccessible beneath bigger carburetors and a welter of equipment to run today's air-conditioning, air suspension, power brake, and power steering systems. So there should be a ready market for the new electronic testing gear.

Of several companies vying for sales of the new devices, Allen B. Du Mont Laboratories, Inc., of Clifton, N. J., seems to have a head start. Du Mont, a television pioneer, manufactured its first scope engine tester under license from Socony Mobil Oil Co. and marketed it two years ago. Since then, it claims to have snared 95% of the scope market —which, even so, is only a fraction of the total business in test equipment for engine tune-ups.

Last month, at the National Automobile Dealers Assn. convention in Miami Beach, Du Mont announced ambitious plans to offer a full line of accessories for its oscilloscope engine analyzer. The result, it hopes, will be a big chunk of the market for all kinds of test equipment.

Du Mont's line includes an elaborate test scope selling for $725, an array of accessories, and a simpler $495 scope

that will check spark plugs, coils, condensers, distributor points, and ignition wiring.

• **Rivals for a Plum**—But Du Mont will meet stiff competition. Sun Electric Corp. of Chicago, probably the largest maker of engine test equipment, added scope testers to its line last summer. And Sun claims it sold $100,000 worth of the new devices at last month's four-day NADA meeting. Heyer Industries, Inc. of Belleville, N. J., another veteran in the field, now sells scope equipment—at $450 for the cheapest model, $1,653 for the de luxe version. Other contenders include Cleveland's King Electric Equipment Co., the Snap-On Tools Corp. of Kenosha, Wis., and Allen Electric & Equipment Co., in Kalamazoo, Mich.

• **Debits and Credits**—The new devices may have several forces against them. Garagemen and service station operators, innately conservative, may be slow to accept the new gadgets. And many ignition specialists already have so much invested in their present equipment that they may be slow to replace it. Fleet Owner, a McGraw-Hill publication, found that scope testers were in use in only about 30 of 850 bus and truck fleets it surveyed.

However, the electronic testers make it possible to venture into the tune-up business for an investment of only $500 to $1,000 in equipment and one mechanic. This business, too, is shifting from the downtown dealer to the suburban service station anyway, and more and more of the nation's 130,000 service stations may decide to offer tune-ups.

The major oil companies have long discouraged promoting tune-ups at their affiliated service stations, on the grounds that it would distract customers from the standby items—gasoline, oil, tires, and batteries. But they're now changing their minds for two reasons:

• Neighborhood stations equipped with scopes for tune-up jobs are luring gasoline, tire, and battery customers away from adjacent rivals.

• An extra $5,000 or so in annual gross profits from tune-up business can be the difference between keeping and losing a good gasoline dealer.

Among the companies already either teaching their dealers to use the scopes or planning to do so are Shell, Esso, Standard Oil of Indiana, and Richfield.

• **Other Equipment**—Of course, there's more to engine test equipment than oscilloscopes. Some of the other devices the repairman uses:

• Combination meters to check generators, voltage regulators, batteries, starters, and the coils and condensers in the ignition circuits.

• Combination or exhaust analyzers to appraise efficiency engine.

• A combination tachometer and dwell meter to tell how fast the engine

is turning over and how long points in the ignition system are closed.

Much of this equipment will probably continue in use, even in shops featuring the new scope devices for tune-ups. But the scope makers hope their products will displace the bench-type distributor testers and meter-type master tune-up consoles.

Tape Recorder Adapted To Sending Photographs

The versatile magnetic tape recorder is already well established as a motion picture recorder for the television industry. Now it's expanding into the still picture business, too.

Ampex Corp. of Redwood City, Calif., has developed a tape machine that will record signals from the standard facsimile transmitters used for wirephotos by the national press syndicates. Once the signals are on tape, they can be sent to other tape recorders much faster than by ordinary facsimile transmission. Or they can be played into a facsimile printer.

One big advantage of the tape machine: There's no loss of quality in successive transmissions from the original facsimile. Ordinarily, retransmitting a facsimile picture causes excessive blurring and loss of quality in the gray scale. The new Ampex machines sell for $12,000 each.

PRODUCTION BRIEFS

Damage-free operation of trailerships may help ease claims men out of a job. On a recent voyage, Pan Atlantic Steamship Corp.'s roll-on roll-off trailership, the Gateway City (BW–Nov.9'57, p104), carried 85,507 cases of canned citrus from Florida to New York. Total damage: one slightly bent 10¢ can.

•

A triple play in petrochemicals is being set up by the Shell Chemical Corp. at its Norco (La.) plant. One new multimillion dollar unit will make acrolein. Another new unit will make glycerine by Shell's hydrogen peroxide-acrolein method, at an original rate of 35-million lb. per year. The hydrogen peroxide needed in the process will be provided by a third unit, just completed.

•

Clear packaging film is the latest development in linear polyethylene. The higher-strength, boilable version of the plastic has previously tended toward milky white opaqueness. According to Phillips Chemical Co., which succeeded in making its Marlex resin more transparent, the new film should be able to give cellophane a run for its money.

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Taking Stock on Our Foreign Policy

It is just four months since the first Soviet Sputnik suddenly darkened the international outlook and jolted the United States out of a dangerously complacent mood. In those four months, the country has been swept by what Secretary of State Dulles has described as "a wave of mortification, anger, and fresh determination." The Administration and the Congress have taken a hard look at our security requirements and are launching programs designed to guarantee the nation's survival.

Four months is too short a time for any real perspective on the measures the U. S. has taken. But now that the first dramatic days of the new Congress are over, this may be a good time to take a reckoning on our world position. Perhaps the simplest way to do this is to appraise what has been done in the four areas of international policy that have been stressed most by the Administration itself.

Our defense effort, quite rightly, has come first. On any kind of reckoning the layman can make, the decisions that have been taken to strengthen SAC, to speed missile development, to build more missile-firing nuclear submarines, to reorganize the Pentagon, have been wise ones. All these decisions, and a dozen more, give reasonable assurance to the American people and to our allies that the U. S. will not lose its deterrent power either during the time it takes to overcome the Soviet missile lead or when space weapons assume a more sophisticated form.

Second has been the problem of bolstering the alliances that allow us, in a military sense, to maintain a protective shield—far from our own shores—around the Soviet empire. In the case of NATO, which Washington wants to arm with intermediate missiles, far more was accomplished by Pres. Eisenhower and Dulles at the NATO summit meeting in December than the first reports indicated. And this week, at a Baghdad Pact meeting in Turkey, Dulles has been trying to bolster the free world's defenses in the Middle East. In short, Sputnik shook our alliances—but only temporarily.

Next has come the problem of dealing with Moscow's clamor for a new summit conference, and with the popular response this has aroused, especially in Western Europe. On this question, a potentially dangerous gap seemed at first to be yawning between the U. S. and its NATO allies. But Eisenhower and Dulles now have gone as far in accepting the idea of negotiation as almost any of the West European governments. They also have challenged Moscow to limit the use of space to peaceful purposes—a proposal that Communist Party boss Nikita Khrushchev refuses to take seriously. If the Administration still seems somewhat reluctant about meeting the Russian leaders at the summit, the explanation lies in Soviet policies, present as well as past.

Finally, the Administration has been stressing the need for positive U. S. action in the fields of trade liberalization and foreign aid. In the case of trade, its purpose is to help maintain the economic strength of all free world nations, including ourselves. In the case of aid, the Administration wants to counter the economic warfare Moscow is waging in the underdeveloped countries. But in the area of trade and aid, we know only the Administration's policy, which broadly, if not in every detail, makes sense to us—in the interests of our economic as well as our security needs. Clearly, though, both aspects of the policy are in for a rough time in Congress.

There is nothing in this record to justify a revival of complacency. However, if our reckoning is at all accurate, the nation has good reason to feel that, in its response to Sputnik, it is moving in the right direction.

Squeeze on Reserves

The nation's monetary managers have taken several steps toward reversing the restrictive credit policy they pursued during the 1955-57 boom. But the two cuts in the discount rate and the reduction in stock margin requirements have not, by themselves, made credit more readily available.

It has only been in the last few weeks that the severe squeeze on the banking system has been moderated (page 33). Even then, it has not been due to any affirmative action by the Federal Reserve but to the normal seasonal pay-down of loans.

This leaves the Fed open to the charge that it is reluctant to moderate its campaign against inflation.

In view of its past performance in economic declines, it is difficult to believe that the Fed is dragging its heels. But there is one step that it has taken before and that it appears justified in taking again. That is to reduce reserve requirements of member banks.

At the very least, the Fed should now erase the 2% additional reserve requirements that apply to banks in New York and Chicago. These banks were the hardest hit in the credit squeeze and are still suffering from the differential.

It is universally recognized that there is no economic or financial basis for this discrimination. It is, in fact, an anachronism.

As long as they were pursuing a restrictive policy, the money managers could argue that erasing the differential would interfere with their over-all objectives. But now, with the economy declining, this argument, too, is no longer justified.

We think that it is time for the Fed to reconsider the question of removing the differential. It is hard to see that anything could be lost by such a step, and it would help to cushion the business decline.

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